No. 11506

United States
Circuit Court of Appeals
For the Ninth Circuit.

VICTORIA L. COTTON,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Transcript of Record
Book of Exhibits
In Three Volumes
VOLUME III
Pages 787 to 976

Upon Petitions to Review a Decision of the Tax Court of the United States

Rotary Colorprint, 870 Brannan Street, San Francisco

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Upon Petitions to Review a Decision of the Tax Court of the United States

Rotary Colorprint, 870 Brannan Street, San Francisco

The Tax Court of The United States

Docket No. 2257

VICTORIA L. COTTON,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Docket No. 7583

VIRGINIA CALDWELL,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

STIPULATION

It is hereby stipulated by and between the parties hereto, through their respective counsel, that the following facts are true:

(1) That on June 10, 1936, pursuant to an agreement dated May 8, 1936, copy of which is attached hereto and marked Exhibit 1, Reyes-Dominguez Company purchased from Title Insurance and Trust Company, as Executor of the Estate of Maria De Los Reyes D. de Francis, 365 shares of the capital stock of Francis Land Company, for which Reyes-Dominguez Company paid the sum of $365,000.00.

(2) That on October 1, 1936, Joseph N. Carson sold to Louisa P. Watson 3 shares of the capital stock of Francis Land Company and received therefor the sum of $3,300.00.

(3) That on October 6, 1936, Lucile W. Martin made a gift of five shares of the capital stock of Francis Land Company to her husband, William S. Martin, and in her gift tax return reported as the then value of said five shares the sum of $5,500.00; that on the books of account of Lucile W. Martin the said five shares of stock of Francis Land Company were reflected at an income tax cost basis of $1,100.00 per share.

(4) That on January 18, 1939, Victoria L. Cotton, petitioner herein, sold to her daughter, Victoria C. Ogden, 16 shares of the capital stock of Francis Land Company and as consideration therefor received a non-interest bearing note in the sum of $16,000.00.

(5) That on January 18, 1939, Victoria L. Cotton, petitioner herein, sold to her daughter, Lucy Cotton, 17 shares of the capital stock of Francis Land Company and as consideration therefor received a non-interest bearing note in the sum of $17,000.00.

(6) That on or about September 15, 1939, Title Insurance and Trust Company, as Trustee under its Trust No. E-9830.4 (created under the will of Maria De Los Reyes D. de Francis) made a complete distribution of its then assets; that Lucy Rasmussen

was then entitled to receive 72.03267 shares of the capital stock of Francis Land Company; that inasmuch as Francis Land Company could not issue fractional shares an adjustment was made and as a result thereof 72 shares of the capital stock of Francis Land Company were distributed to Lucy Rasmussen and at the same time there was distributed to her $32.67 in cash in full settlement of her interest in the fractional shares.

(7) That on April 24, 1941, Lucy Rasmussen sold to her son, Neil Rasmussen, Jr., 35 shares of the capital stock of Francis Land Company and received as consideration therefor a non-interest bearing note in the sum of $38,281.28; that the income tax cost basis to Lucy Rasmussen of the stock of Francis Land Company as reflected on her books was $1,093.75 per share.

(8) That on April 24, 1941, Lucy Rasmussen sold to her son, Arthur H. Rasmussen, 35 shares of the capital stock of Francis Land Company and received as consideration therefor a non-interest bearing note in the sum of $38,281.28; that the income tax cost basis to Lucy Rasmussen of the stock of Francis Land Company as reflected on her books was $1,093.75 per share.

(9) That on April 24, 1941, Lucy Rasmussen sold to her son, George C. C. Rasmussen, 35 shares of the capital stock of Francis Land Company and received as consideration therefor a non-interest bearing note in the sum of $38,281.28; that the income tax cost basis to Lucy Rasmussen of the stock

of Francis Land Company as reflected on her books was $1,093.75 per share.

(10) That on or about June 12, 1936, John F. Watson, pursuant to a property settlement agreement with his estranged wife, Helen R. Watson, copy of which agreement is attached hereto and marked Exhibit 2, transferred to said Helen R. Watson 50 shares of stock of Dominguez Estate Company; that the income tax cost basis to John F. Watson of said shares of stock of Dominguez Estate Company as reflected on his books was $1,000.00 per share.

(11) That on or about June 10, 1936, pursuant to the agreement dated May 8, 1936 (Exhibit 1), Reyes-Dominguez Company purchased from the O'Melvenys (designated in said agreement) 1100 shares of the capital stock of Dominguez Estate Company, for which it paid the sum of $1,100,000.00.

(12) That on or about October 2, 1936, Joseph N. Carson sold a total of 11 shares of the capital stock of Dominguez Estate Company to the following named individuals and received therefor the total sum of $11,000.00:

Name	No. Shares
Virginia Caldwell	1
Jarrett Estate Company	1
David V. Carson	1
Robert L. Watson	3
E. H. Carson	1
Louisa P. Watson	3
Susana Watson Lacayo	1

that the income tax cost basis to Joseph N. Carson of the stock of Dominguez Estate Company as reflected on his books was $1,000.00 per share.

(13) That on October 5, 1936, Lucile W. Martin transferred by way of gift to William S. Martin 15 shares of the capital stock of Dominguez Estate Company, and in her gift tax return reported the value of the gift to be $15,000.00; that the books of account of Lucile W. Martin reflected an income tax cost basis to her of the stock of Dominguez Estate Company of $1,000.00 per share.

(14) That on January 18, 1939, Victoria L. Cotton, petitioner herein, sold to her daughter, Victoria C. Ogden, 50 shares of the capital stock of Dominguez Estate Company and as consideration therefor received a non-interest bearing note in the sum of $50,000.00.

(15) That on January 18, 1939, Victoria L. Cotton, petitioner herein, sold to her daughter, Lucy Cotton, 49 shares of the capital stock of Dominguez Estate Company and as consideration therefor received a non-interest bearing note in the sum of $49,000.00.

(16) That on April 24, 1941, Lucy Rasmussen sold to her son, Neil Rasmussen, Jr., 33 shares of the capital stock of Dominguez Estate Company and received as consideration therefor a non-interest bearing note in the sum of $33,000.00; that the income tax cost basis to Lucy Rasmussen of the stock of Dominguez Estate Company as reflected on her books was $1,000.00 per share.

(17) That on April 24, 1941, Lucy Rasmussen sold to her son, Arthur H. Rasmussen, 33 shares of the capital stock of Dominguez Estate Company and received as consideration therefor a non-interest bearing note in sum of $33,000.00; that the income tax cost basis to Lucy Rasmussen of the stock of Dominguez Estate Company as reflected on her books was $1,000.00 per share.

(18) That on April 24, 1941, Lucy Rasmussen sold to her son, George C. C. Rasmussen, 33 shares of the capital stock of Dominguez Estate Company and received as consideration therefor a non-interest bearing note in the sum of $33,000.00; that the income tax cost to Lucy Rasmussen of the stock of Dominguez Estate Company as reflected on her books was $1,000.00 per share.

(19) That J. R. Lacayo, pursuant to an agreement dated October 3, 1940, by and between Louisa Watson and Susana Watson Lacayo, as Executrices of the Last Will and Testament of Robert Lee Watson, Deceased, and said J. R. Lacayo, copy of which is attached hereto and marked Exhibit 3, received two and two-thirds shares of the capital stock of the Francis Land Company.

(20) That on October 13, 1936, Robert L. Watson transferred by gift two shares of the capital stock of Dominguez Estate Company to his wife, Louisa P. Watson, and one share of the capital stock of Dominguez Estate Company to his daughter, Susana Watson Lacayo, and did not report the

same in a gift tax return for the reason that the value did not exceed the annual exclusion.

(21) That on April 18, 1940, John F. Watson sold to his brother, Alphonse L. Watson, two shares of the capital stock of Dominguez Estate Company for the sum of $1,400.00.

(22) That on February 26, 1937, Victoria L. Cotton made a gift of 16 shares of the capital stock of the Carson Estate Company to her daughter, Victoria C. Ogden, and also a gift of 16 shares of the capital stock of the Carson Estate Company to her daughter, Lucy Cotton, neither of which gifts was reported in a gift tax return as she considered that they did not exceed the annual exclusion.

(23) That on December 20, 1938, Lucy Rasmussen gave to each of her sons, Neil Rasmussen, Jr., Arthur H. Rasmussen, and George C. C. Rasmussen, respectively, 10 shares of the capital stock of Carson Estate Company, which gifts were not reported in a gift tax return because she believed they did not exceed the annual exclusion.

(24) That on December 23, 1940, Lucy Rasmussen gave to each of her sons, Neil Rasmussen, Jr., Arthur H. Rasmussen and George C. C. Rasmussen, respectively, eight shares of the capital stock of Carson Estate Company, which gifts were not reported in a gift tax return under the belief that they did not exceed the annual exclusion.

(25) That on September 18, 1939, Lucile W. Martin made a gift to her son, William S. Martin,

Jr., of two shares of the capital stock of Francis Land Company, and did not report the same in a gift tax return because she believed the gift did not exceed the annual exclusion.

(26) That on or about September 15, 1939, Title Insurance and Trust Company, as Trustee under its Trust No. E-9830.4 (created under the will of Maria De Los Reyes D. de Francis) made a complete distribution of its then assets; that Edward A. Carson was then entitled to receive 72.03267 shares of the capital stock of Francis Land Company; that inasmuch as Francis Land Company could not issue fractional shares an adjustment was made and as a result thereof 72 shares of the capital stock of Francis Land Company were distributed to Edward A. Carson and at the same time there was given to him $32.67 in cash in full settlement of his interest in the fractional share.

(27) That on or about September 15, 1939, Title Insurance and Trust Company, as Trustee under its Trust No. E-9830.4 (created under the will of Maria De Los Reyes D. de Francis), made a complete distribution of its then assets; that John F. Watson was then entitled to receive 7.47005 shares of the capital stock of Francis Land Company; that inasmuch as Francis Land Company could not issue fractional shares an adjustment was made and as a result thereof seven shares of the capital stock of Francis Land Company were distributed to John F. Watson and at the same time there was given to him $470.05 in cash in full settlement of his interest in the fractional share.

(28) That on August 8, 1935, the Carson Estate Company purchased six shares of stock of Carson Estate Company from Hunsaker & Cosgrove, for which it paid the sum of $1,800.00.

(29) That on September 10, 1936, John F. Watson transferred to his sister, Lavena Watson Brown, six shares of the capital stock of Dominguez Estate Company for a beach house which had cost approximately $6,000.00.

(30) That on or about June 26, 1936, the Estate of George H. Carson, Deceased, sold, and Carson Estate Company purchased, 82 shares of the capital stock of Carson Estate Company for the sum of $24,600.00.

(31) That Reyes-Dominguez Company about October, 1936, distributed in liquidation, among other things, 1100 shares of the capital stock of Dominguez Estate Company and 370 shares of the capital stock of Francis Land Company; that inasmuch as the by-laws of each of these companies prohibited the issuance of fractional shares, an adjustment was made with respect to the fractional shares and these adjustments were made with respect to Dominguez Estate Company stock on the basis of $1,000.00 per share and with respect to Francis Land Company stock on the basis of $1,100.00 per share.

It Is Further Stipulated and Agreed that counsel

for petitioners may object to the relevancy or materiality of the foregoing statement of facts.

/s/ A. CALDER MACKAY,
/s/ ARTHUR McGREGOR,
/s/ HOWARD W. REYNOLDS,
/s/ ADAM Y. BENNION,
Counsel for Petitioner.

J. P. WENCHEL,
Chief Counsel, Bureau of Internal Revenue, Counsel for Respondent.

Filed T.C.U.S. Oct. 19, 1945.

[Endorsed]: Filed U.S.C.C.A. Dec. 20, 1946.

The Tax Court of The United States

Docket No. 2257

VICTORIA L. COTTON,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE.

Respondent.

STIPULATION OF FACTS

It is hereby mutually stipulated and agreed, by and between the parties hereto, through their respective counsel of record, that, in additional to the

facts established by the pleadings and for the purposes of the above-entitled proceeding, the following facts and joint exhibits, which are attached hereto and made a part hereof, shall be taken to be true and received as evidence herein, without prejudice to the right of either party to introduce other and further evidence not inconsistent therewith:

(1) That the "Book Values" and "Stipulated Fair Market Values" of assets and liabilities as at May 31, 1941, stipulated in Joint Exhibits 1-A, 2-B, and 3-C are the book values and agreed fair market values as at June 5, 1941.

(2) That stock holdings as at May 31, 1941, as disclosed by Joint Exhibits 13-M, 14-N, and 15-O are identical with the stock holdings as at June 5, 1941, prior to the gift transfers of stock by the petitioner on June 5, 1941, which are the gifts involved in this proceeding.

(3) That, subject to verification of such data by opposing counsel, expert witnesses may refer to data published in authoritative financial manuals and journals without producing such manuals and journals in Court. That the manuals and journals regarded as authoritative shall include, but are not limited to, Moody's Manual, Poor's Manual, Standard Statistics Company's publications, Commercial and Financial Chronicle and its Supplements, Wall Street Journal, and National Quotation Bureau's publications.

(4) That attached hereto, and made a part here-

of, are Joint Exhibits 1-A to 20-T. inclusive, described as follows:

(a) Joint Exhibit 1-A is a condensed balance sheet for Dominguez Estate Company as at May 31, 1941, with descriptions of assets and liabilities, book values for assets and liabilities and stipulated fair market values for certain assets and for certain liabilities. The parties hereto have not agreed upon the fair market values of certain assets and liabilities which items are marked "at issue" in the column headed "Stipulated Fair Market Values".

(b) Joint Exhibit 2-B is a condensed balance sheet for Francis Land Company as at May 31, 1941, with descriptions of assets and liabilities, book values for assets and liabilities and stipulated fair market values for certain assets and for certain liabilities. The parties hereto have not agreed upon the fair market values of certain assets and liabilities which items are marked "at issue" in the column headed "Stipulated Fair Market Values."

(c) Joint Exhibit 3-C is a condensed balance sheet for Carson Estate Company as at May 31, 1941, with descriptions of assets and liabilities, book values for assets and liabilities and stipulated fair market values for certain assets and for certain liabilities. The parties hereto have not agreed upon the fair market values of certain assets and liabilities which items are marked "at issue" in the column headed "Stipulated Fair Market Values."

(d) Joint Exhibit 4-D is a true and correct statement for Dominguez Estate Company of its

profit and loss accounts, surplus adjustments, dividends and earned surplus balances, per books, for the calendar years 1927 to 1940, inclusive, and for the five-month period January 1 to May 31, 1941. For the purposes of this proceeding the income shown on said exhibit, except for the five months in 1941, may be taken as the correct income before percentage depletion except for cost depletion shown on said exhibit.

With respect to the income for the five-month period in 1941, either party may assume that the income shown on said exhibit for said period may be correct, or may assume that 5/12ths of the income shown on Joint Exhibit 4-D(1) may be correct.

Royalty income in said exhibit does not include royalties from the Reyes, De Frances, and Manuel leases prior to acquisition in October, 1928.

(e) Joint Exhibit 5-E is a true and correct statement for Francis Land Company of its profit and loss accounts, surplus adjustments, dividends and earned surplus balances, per books, for the calendar years 1927 to 1940, inclusive, and for the five-month period January 1 to May 31, 1941. For the purposes of this proceeding the income shown on said exhibit, except for the five months in 1941, may be taken as the correct income before percentage depletion except for cost depletion shown on said exhibit.

With respect to the income for the five-month period in 1941, either party may assume that the

income shown on said exhibit for said period may be correct, or may assume that 5/12ths of the income shown on Joint Exhibit 5-E(1) may be correct.

(f) Joint Exhibit 6-F is a true and correct statement for Carson Estate Company of its profit and loss accounts, surplus adjustments, dividends and earned surplus balances, per books, for the calendar years 1927 to 1940, inclusive, and for the five-month period January 1 to May 31, 1941. For the purposes of this proceeding the income shown on said exhibit, except for the five months in 1941, may be taken as the correct income before percentage depletion except for cost depletion shown on said exhibit.

With respect to the income for the five-month period in 1941, either party may assume that the income shown on said exhibit for said period may be correct, or may assume that 5/12ths of the income shown on Joint Exhibit 6-F(1) may be correct.

(g) Joint Exhibit 7-G is an approximate but substantially correct allocation to specific phases of the business of Dominguez Estate Company of parts of the item entitled "general and administrative" appearing under deductions in Joint Exhibit 4-D.

(h) Joint Exhibit 8-H is an approximate but substantially correct allocation to specific phases of the business of Carson Estate Company of parts of the item entitled "general and administrative" appearing under deductions in Joint Exhibit 6-F.

(i) Joint Exhibit 9-I is an approximate but substantially correct allocation to specific phases of the business of Dominguez Estate Company of parts of the item entitled "surplus adjustments" appearing under deductions in Joint Exhibit 4-D.

(j) Joint Exhibit 10-J is an approximate but substantially correct allocation to specific phases of the business of Carson Estate Company of parts of the item entitled "surplus adjustments" appearing under deductions in Joint Exhibit 6-F.

(k) Joint Exhibit 11-K(1) is the estimated amount, in barrels of oil, of ultimate probable future production from known oil reserves of all oil properties owned by Dominguez Estate Company on June 5, 1941, together with the royalty share of Dominguez Estate Company therein. The estimated probable future production by calendar years is based upon the assumption that all wells being produced on June 5, 1941, would continue to be produced to the full indicated capacity of the formation to yield the oil, and, further, that each probable productive location of said known oil reserves would be developed and produced to its full indicated capacity in accord with its probable development program.

Joint Exhibit 11-K(2) is a computation, based upon said Joint Exhibit 11-K(1) and upon an agreed price per barrel of oil, said price being net revenue per barrel of royalty oil received from January 1 to May 31, 1941. The estimated probable royalty income by calendar years is based upon the

assumption that the production will be in accord with the rates set forth in Joint Exhibit 11-K(1).

It is understood and agreed that nothing contained in said Joint Exhibits 11-K(1) and/or 11-K(2) shall limit either party in presenting evidence with respect to discounts and other factors and/or methods that might be taken into consideration in determining the fair market value of said oil royalties or in presenting evidence of such fair market value based upon other indices.

Royalty income from the Carpenter well, by years from 1941 through 1947, has been reduced by $150.00 per annum to compensate for rental payments.

(l) Joint Exhibit 12-L(1) is the estimated amount, in barrels of oil, of ultimate probable future production from known oil reserves of all oil properties owned by Carson Estate Company on June 5, 1941, together with the royalty share of Carson Estate Company therein. The estimated probable future production by calendar years is based upon the assumption that all wells being produced on June 5, 1941, would continue to be produced to the full indicated capacity of the formation to yield the oil, and, further, that each probable productive location of said known oil reserves would be developed and produced to its full indicated capacity in accord with its probable development program.

Joint Exhibit 12-L(2) is a computation, based upon said Joint Exihibit 12-L(1) and upon an

agreed price per barrel of oil, said price being net revenue per barrel of royalty oil received from January 1 to May 31, 1941. The estimated probable royalty income by calendar years is based upon the assumption that the production will be in accord with the rates set forth in Joint Exhibit 12-L(1).

It is understood and agreed that nothing contained in said Joint Exhibits 12-L(1) and/or 12-L(2) shall limit either party in presenting evidence with respect to discounts and other factors and/or methods that might be taken into consideration in determining the fair market value of said oil royalties or in presenting evidence of such fair market value based upon other indices.

(m) Joint Exhibit 13-M is a complete list of stock holdings in Dominguez Estate Company as at May 31, 1941.

(n) Joint Exhibit 14-N is a complete list of stock holdings in Francis Land Company as at May 31, 1941.

(o) Joint Exhibit 15-O is a complete list of stock holdings in Carson Estate Company as at May 31, 1941.

(p) Joint Exhibit 16-P is a chart showing intercorporate stock holdings of Dominguez Estate Company, Francis Land Company, Carson Estate Company, and other related corporations.

(q) Joint Exhibit 17-Q is a map of the Dominguez Oil Field, showing the oil properties of

Dominguez Estate Company colored in red, the oil properties of Carson Estate Company colored in blue, and the joint oil properties of Dominguez Estate Company and Carson Estate Company indicated by red and blue crosshatching. Said map also shows the approximate acreage of each of said oil properties and the surface location of all drill holes on said properties at or about June 5, 1941.

(r) Joint Exhibit 18-R is a map of the Torrance Oil Field, showing the oil properties of Dominguez Estate Company colored in red and the oil properties of Carson Estate Company colored in blue. Said map also shows the approximate acreage of each of said oil properties and the surface location of all drill holes on said properties at or about June 5, 1941.

(s) Joint Exhibit 19-S is a map of the Wilmington Oil Field, showing the oil property of Dominguez Estate Company colored in red. Said map also shows the approximate acreage of said property and the surface location of all drill holes on said property at or about June 5, 1941.

(t) Joint Exhibit 20-T is a map of the Hilldon-Caminol-Victory "Dominguez-Carson" leases, showing the joint leases of Dominguez Estate Company and Carson Estate Company by red and blue crosshatching. Said map also shows the approximate acreage of each of said properties and the surface

location of all drill holes on said properties at or about June 5, 1941.

/s/ A. CALDER MACKAY,
/s/ ARTHUR McGREGOR,
/s/ HOWARD W. REYNOLDS,
/s/ ADAM Y. BENNION,
Counsel for Petitioner.

/s/ J. P. WENCHEL, BHN
Chief Counsel, Bureau of Internal Revenue, Counsel for Respondent.

Filed T.C.U.S. Oct. 8, 1945.

[Endorsed]: Filed U.S.C.C.A. Feb. 20, 1946.

EXHIBIT No. 1

This Memorandum of an Agreement made as of the 8th day of May, 1936, by and between the following parties:

First: Henry W. O'Melveny, Stuart O'Melveny, John O'Melveny, Donald O'Melveny, Isabel Watson O'Melveny, Phila Miller O'Melveny, as Parties of the First Part, sometimes herein collectively designated as "O'Melvenys";

Second: Edward A. Carson, David V. Carson, Joseph N. Carson, also known as Joseph Carson, Virginia Caldwell, Lucy C. Rasmussen, Amelia Atherton Drudis, Victoria Cotton, Valerie C. Hanrahan, Gladys C. Scheller, John Victor Carson,

Exhibit No. 1—(Continued)

George Earl Carson, also known as G. Earl Carson and as Earl Carson, as Parties of the Second Part, sometimes herein collectively designated as "Carsons";

Third: Robert L. Watson, Gracia Watson Rollins, Title Insurance and Trust Company, as assignee of and Trustee for Gracia Watson Rollins, Lucile Watson Martin, Anita Watson, Alphonse Watson, John F. Watson, Victoria Limacher, Lavena Watson Brown, Watson Jarrett, Jarrett Estate Company, a Corporation (as successor of Watson Jarrett and Dudley Jarrett), as Parties of the Third Part, sometimes herein collectively designated as "Watsons";

Fourth: Reyes-Dominguez Company, a Corporation, as Party of the Fourth Part, sometimes herein designated as "Reyes Company";

Fifth: Title Insurance and Trust Company, individually and as Executor of the Will of Maria De Los Reyes D. de Francis, Deceased, and as Trustee designated by said Will in respect of the trusts declared therein, as Party of the Fifth Part, sometimes herein designated, according to the capacity in which it is referred to, as "Executor" or as "Trustee";

and

Sixth: H. W. O'Melveny, John O'Melveny, Walter K. Tuller, Louis W. Myers, Paul E. Schwab, Paul Fussell, William W. Clary, James L. Beebe,

Exhibit No. 1—(Continued)

Harry L. Dunn and Pierce Works, co-partners under the firm name and style of O'Melveny, Tuller & Myers, together with all associate attorneys regularly employed by said co-partners, as Parties of the Sixth Part, sometimes herein designated as "Law Firm":

Witnesseth:

That, Whereas, the Carsons and the Watsons are all of the heirs at law of Maria De Los Reyes D. de Francis, deceased, and are also beneficiaries under her Last Will and Testament, including the Codicil thereto (except that Jarrett Estate Company is the successor of Dudley Jarrett and Watson Jarrett in such capacity, and Title Insurance and Trust Company is the Assignee of and Trustee for Gracia Watson Rollins in such capacity) heretofore admitted to probate in and by the Superior Court of the State of California in and for the County of Los Angeles, in the proceedings now pending therein for the administration of said decedent's estate, bearing her name and designated as Probate Case No. 136707 of the records of said Court, wherein said Executor was appointed and qualified in such capacity, and has ever since been and now is the fully appointed, qualified and acting Executor of said Will, and in said proceedings said Executor has employed, and until lately has had the Law Firm as its counsel therein; and

Exhibit No. 1—(Continued)

Whereas, the Carsons, or some of them, have now and heretofore asserted that said decedent to and at the time of her death had, and was rightfully entitled to assert and enforce, certain claims, demands and rights against the O'Melvenys (or as to the several items thereof, against some one or more of them) on account of and arising and resulting from certain gifts, or purported gifts, claimed to have been made by said Maria De Los Reyes D. de Francis in her lifetime to said O'Melvenys, or some of them, and from certain acts and transactions of said H. W. O'Melveny while acting in the capacity of her representative and attorney in fact (including the right to set aside said gifts or purported gifts); and that such claims, demands and rights have accrued to and constitute part of her estate, and are enforcible and should be enforced by her Executor on behalf of said estate and the persons interested therein, all of which claims have been respectively controverted and denied by the O'Melvenys, and each of them; and

Whereas, the O'Melvenys, the Executor, the Carsons and the Watsons, are willing, finally and forever, to settle and compromise all of said claims and demands in the manner and on the basis hereinafter provided; and

Whereas, the O'Melvenys represent that they are respectively the owners and holders of record of the shares of the capital stock of Dominguez Estate Company, a California corporation, evidenced by

Exhibit No. 1—(Continued)

the certificates therefor issued to them as hereinafter set forth, which shares they desire to sell to Reyes Company and which Reyes Company desires to purchase from them at the price and upon the basis hereinafter provided; and all of the shares of Reyes Company are included in said decedent's estate and are bequeathed by said Will to the Carsons and the Watsons (except that certain of said shares are thereby bequeathed to Title Insurance and Trust Company in trust for the benefit of said Joseph Carson, as in said Will provided) and they (said Carsons and Watsons), and said Title Insurance and Trust Company, as Trustee as last aforesaid, approve such purchase by Reyes Company; and

Whereas, by said Will, and by the paragraph thereof designated "Twentieth", all of the residue of said estate not otherwise specifically disposed of is given, devised and bequeathed unto said Trustee, upon the trusts therein provided, for the benefit of those of the Carsons and the Watsons therein designated; and

Whereas, the parties hereto believe that the consummation of this compromise agreement will not increase either the Federal Estate Tax chargeable against said estate, or the California Inheritance Tax chargeable against any of the respective interests therein, or create any other State or Federal tax liability, but, nevertheless, the Executor has requested the indemnity and assurance as herein-

Exhibit No. 1—(Continued)

after provided, to the end that said estate may, and upon condition that it shall, be promptly settled and distributed as herein provided, without regard to or delay because of any possibility of such additional tax liability; and

Whereas, the Carsons and the Watsons, or some of them, are stockholders or beneficially interested in Francis Land Company, a California corporation, and also in said Dominguez Estate Company;

Now, therefore, pursuant to the premises, and for the purposes and to the ends aforesaid, it is agreed by and between the parties hereto as follows, to-wit:

1. In and by way of compromise and settlement of the claims and demands asserted against them as aforesaid, the O'Melvenys, jointly and severally, undertake, promise and agree to, and that they will, prior to, or concurrently with payment to them of the purchase price for the eleven hundred (1100) shares of the capital stock of Dominguez Estate Company to be sold by them as hereinafter in the paragraph hereof designated 2 provided (it being contemplated, and the O'Melvenys agree, that to the extent they shall not theretofore have paid the amounts to be paid by them as next hereinafter provided, they will apply thereto so much as may be necessary therefor of said purchase price of said eleven hundred (1100) shares of the capital stock of Dominguez Estate Company):

(a) Fully pay and discharge (and obtain and

Exhibit No. 1—(Continued)

furnish to said Executor, in form satisfactory to it, full and complete acquittances and releases from the legatees thereunder in respect of) each and all of the cash bequests to charity and for charitable or benevolent purposes given and made by said Will, and particularly by the paragraphs thereof designated "Eighth," "Ninth," "Tenth," "Eleventh," and "Fourteenth" (without regard to the validity thereof and irrespective of whether the condition of said estate be such as that said charitable bequests would otherwise have been payable or fully payable) such charitable bequests including all thereof, viz.:

To Right Reverend John J. Cantwell, Bishop of Los Angeles and San Diego, the sum of Three Hundred Thousand Dollars ($300,000.00);

To Los Angeles Orphan Asylum the sum of Twenty Thousand Dollars ($20,000.00);

To Sister Marianne of St. Vincent's Hospital the sum of Five Thousand Dollars ($5,000.00), said legacy having been assigned to said Dominguez Estate Company to which it shall be paid as hereinafter provided;

To Elizabeth Day Nursery the sum of Three Thousand Dollars ($3,000.00);

To Title Insurance and Trust Company the sum of Sixty Thousand Dollars ($60,000.00)

Exhibit No. 1—(Continued)

for the care, upkeep and maintenance of the old homestead of the Dominguez family;

including as part of the legacies so assumed and to be paid by the O'Melvenys, any interest or other charges accrued, or which may accrue, thereon; provided that if the O'Melvenys shall be able to settle and discharge any of said legacies by payment of lesser amounts, the benefit of any such saving or discount shall accrue to them; it being contemplated and agreed, however, that they shall, at all events, at or before the time aforesaid and at their own sole cost and expense, discharge said legacies by such payment as shall be necessary therefor, and in such manner as fully to relieve said estate and said Executor thereform; and provided, further, that if any payment or advancement on account of any of said charitable bequests shall have been or shall be hereafter made, either by said Executor or by any other person or corporation, or if any assignment, or partial assignment, or any such bequest shall have been or shall be made to said Executor or any other person, then, and in either such case, the person or corporation making such advancement or payment, or receiving such assignment, shall, to such extent, be entitled hereunder to payment of the legacy affected.

(b) Transfer, assign, set over and deliver to said Executor in such capacity, and as part of the assets of said estate, and free and clear of any claim, lien, charge or encumbrance whatsoever,

Exhibit No. 1—(Continued)

eleven hundred (1100) shares of the capital stock of Francis Land Company, a California Corporation, which they represent are now evidenced by Certificates as follows:

No. 8 for two hundred (200) shares, issued November 7, 1928, to H. W. O'Melveny;

No. 11 for three hundred (300) shares, issued November 7, 1928, to John O'Melveny;

No. 16 for two hundred (200) shares, issued June 3, 1932, to Isabel O'Melveny;

No. 17 for one hundred (100) shares, issued June 3, 1932, to Stuart O'Melveny;

No. 21 for twenty-five (25) shares, issued December 30, 1935, to Phila Miller O'Melveny;

No. 22 for two hundred seventy-five (275) shares, issued December 30, 1935, to Donald O'Melveny;

and upon and in evidence of such transfer, said O'Melvenys shall deliver to said Executor the Certificates aforesaid, each thereof duly endorsed to it, and with the necessary United States Internal Revenue Stamps upon said transfer affixed thereto, all thereof in such manner and form as to entitle said Executor to have said shares transferred to its name as Executor upon the books of said Francis Land Company.

2. At the time and in the manner hereinafter provided, the O'Melvenys, jointly and severally,

Exhibit No. 1—(Continued)

agree to sell to Reyes Company, and it agrees to buy from them (the Carsons and the Watsons, and Title Insurance and Trust Company as Trustee for Joseph Carson, expressly assenting to said purchase), all thereof, free and clear of any claim, lien, charge, or encumbrance whatsoever, and at and for the price of One Million One Hundred Thousand Dollars ($1,100,000) cash, eleven hundred (1100) shares of the capital stock of Dominguez Estate Company, a California Corporation, which the O'Melvenys represent are evidenced by certificates as follows:

No. 2-NS for two hundred (200) shares, issued October 10, 1928, to H. W. O'Melveny;

No. 7-NS for three hundred (300) shares, issued October 10, 1928, to John O'Melveny;

No. 60-NS for two hundred (200) shares, issued June 3, 1932, to Isabel O'Melveny;

No. 61-NS for one hundred (100) shares, issued June 3, 1932, to Stuart O'Melveny;

No. 90-NS for twenty-five (25) shares, issued December 30, 1935, to Phila Miller O'Melveny;

No. 91-NS for two hundred seventy-five (275) shares, issued December 30, 1935, to Donald O'Melveny.

Following, and within five days after said Superior Court in said probate proceedings shall have approved this Agreement as to said estate and shall

Exhibit No. 1—(Continued)

have authorized such action on the part of said Executor as shall be necessary to consummation hereof, said O'Melvenys shall and they agree that they will, upon and in evidence and by way of consummation of said sale, transfer and deliver to Reyes Company the certificates aforesaid for said eleven hundred (1100) shares of the capital stock of Dominguez Estate Company, duly endorsed by them to Reyes Company, with the necessary United States Revenue stamps upon such transfer affixed thereto (all thereof in such manner and form as to entitle Reyes Company to have said shares regularly transferred to it upon the books of Dominguez Estate Company), and said purchase price shall thereupon be payable, such delivery and payment being conditions concurrent; provided, and it shall be a condition to such payment and to the O'Melvenys' right thereto, that prior to, or concurrently therewith, they shall comply with all of the obligations devolving upon them under the provisions of the paragraph hereof designated 1; provided, further, that Reyes Company shall have the right, at its election and without formal notice, to defer and postpone such payment for said shares from time to time, but not later than sixty (60) days after written notice to it by the O'Melvenys of the making of such order by said Court, and of the deposit of said certificates of Dominguez Estate Company in escrow, as hereinafter provided, for, and in condition for delivery to, Reyes Company in accordance herewith, and to the effect that the O'Melvenys have

Exhibit No. 1—(Continued)

complied, or are prepared to comply, with the obligations devolving upon them under paragraph hereof designated 1. If such payment shall be so deferred for more than thirty (30) days after such written notice, then said purchase price shall bear interest from and after, but not before, the expiration of such thirty (30) day period until payment of said price, at the rate of three per cent (3%) per annum, which interest shall be payable with the principal. Except in such case and to such extent said purchase price shall not bear interest.

The Trustee, subject to the approval of the Court, and those of the Carsons and the Watsons named in paragraph designated "Sixth" of said will; and Edward A. Carson, David Carson, Virginia Caldwell, Amelia Atherton Drudia, Victoria L. Cotton, Lucile Rasmussen, Joseph Carson, John Victor Carson, George Earl Carson, Gladys Carson Scheller, and Valeria Carson Hanrahan (as successors to George Carson, deceased, under and by virtue of said Codicil to said Will) hereby direct the Executor to joint in and approve said sale and transfer, to the extent of any interest, or apparent interest, of said estate in said shares.

3. By and upon the said transfer to said Executor of said eleven hundred (1100) shares of the capital stock of Francis Land Company, and by and upon the said sale and transfer to Reyes Company of said eleven hundred (1100) shares of the capital stock of Dominguez Estate Company, all thereof,

Exhibit No. 1—(Continued)

as hereinbefore provided, said H. W. O'Melveny as to all of said shares, said Stuart O'Melveny as to those of said shares evidenced by certificates now standing in the names of himself and said Isabel O'Melveny, said Donald O'Melveny as to those of said shares evidenced by certificates now standing in the names of himself and said Phila Miller O'Melveny, and said John O'Melveny as to those of said shares evidenced by certificates now standing in his name, all thereof as aforesaid, shall be further deemed to, and they do hereby respectively and to the extent aforesaid, represent to, and covenant and agree with, said Executor, said estate, and the persons interested therein, as to said shares of Francis Land Company; and to and with said Reyes Company as to said shares of Dominguez Estate Company, as follows: That all of said shares were originally validly issued by Francis Land Company and by Dominguez Estate Company, respectively, unto said Maria De Los Reyes D. De Francis (except as to one hundred (100) of said shares of Dominguez Estate Company, which they likewise represent, covenant and agree were originally validly issued to other persons or corporations); that said shares were thereafter, by mesne transfers, duly and regularly made, transferred to and acquired by said present holders thereof, and that they are now the owners thereof and entitled to make such further transfer; that neither said Maria De Los Reyes D. De Francis (nor the persons or corporations to whom were issued as aforesaid said one hundred

Exhibit No. 1—(Continued)

(100) shares of the capital stock of Dominguez Estate Company), nor said O'Melvenys, nor said intermediate transferees of said shares, nor any of them, have in any manner subjected, or suffered or permitted said shares, or any thereof, to be subjected, to any lien, charge or encumbrance whatsoever, on in any manner done or suffered anything to be done, or omitted anything, which would or might in any way affect or impair title to said shares, or the rights of the holders thereof, so to be transferred to said Executor and to Reyes Company, respectively; and they, the said H. W. O'Melveny as to all of said shares, and said Stuart O'Melveny as to those of said shares so now represented by certificates issued to him and said Isabel O'Melveny, and said Donald O'Melveny as to those of said shares so now represented by certificates issued to him and said Phila Miller O'Melveny, and said John O'Melveny as to those of said shares so now represented by certificates issued to him, expressly covenant and agree to defend such title and said shares against all claims and demands to the contrary, excepting only such taxes, if any, as are hereinafter assumed by Reyes Company, and to which its indemnity in favor of said Executor, as hereinafter provided, shall apply (and said O'Melvenys shall not be obligated for or in respect of said taxes, if any). The undertaking and covenants aforesaid upon and in respect of said transfers are additional to and not exclusive of, those provided by Section 330.11 of the Civil Code of the State of California,

Exhibit No. 1—(Continued)

and all thereof, express and implied by said section, shall survive, continue and be enforceable hereunder after such transfers, without merger therein or extinguishment thereby.

4. By and as a feature of the transfer to said Executor of said eleven hundred (1100) shares of the capital stock of Francis Land Company, and by and as a feature of the sale and transfer to said Reyes Company of said eleven hundred (1100) shares of the capital stock of the Dominguez Estate Company, all thereof as hereinbefore provided, said transferees shall respectively be and become entitled to receive and retain, free of any claim and demand whatsoever of the O'Melvenys, or any of them, all dividends of whatsoever kind or character (whether representing distribution of income, capital or surplus, and regardless of when earned) which may have been or may be paid upon any of such shares on or after April 20, 1936 (and the O'Melvenys agree promptly to account for any pay over any thereof received by them), except the following, which shall be paid to the O'Melvenys, viz.:

(a) Thirteen Thousand Two Hundred Dollars ($13,200.00) out of the next subsequent dividend or dividends declared upon the portion unsold by said Executor as hereinafter provided, of said eleven hundred (1100) shares of the capital stock of the Francis Land Company);

Exhibit No. 1—(Continued)

(b) Thirteen Thousand Two Hundred Dollars ($13,200.00) out of the next subsequent dividend or dividends declared upon said eleven hundred (1100) shares of the capital stock of the Dominguez Estate Company.

5. In consideration of the agreements of release, and the release by the O'Melvenys, and each of them, and by the Law Firm, and each of its members and employees, in this paragraph contained, and of the performance of the obligations of the O'Melvenys, and each of them, under paragraphs hereof designated "1(a)" and "1(b)", the Executor, subject to the confirmation of the Court, the Reyes Company, and the Carsons and the Watsons, and each of them (individually, as heirs and legatees and/or transferees of Maria De Los Reyes D. De Francis, as heirs of Guadalupe Dominguez, deceased, as stockholders of the Dominguez Estate Company, Francis Land Company and Reyes Company, and in any and all other capacities, whether like or unlike the foregoing) agree, concurrently with the performance by the O'Melvenys of all of the obligations devolving upon them under the paragraphs of this agreement designated 1 and 2, to release and forever discharge, and, subject to such performance by the O'Melvenys, by these presents do release and forever discharge, the O'Melvenys, and each of them, and the Law Firm, from any demands, claims, actions, causes of action, and/or suits at law or in equity, that they, the Executor, the Reyes Company, the Carsons and the Watsons,

Exhibit No. 1—(Continued)

or any of them, may now have or assert, arising out of any acts or omissions which have heretofore been done or suffered by the O'Melvenys, or any of them, or the Law Firm, of any and every nature whatsoever, including (without limiting the generality of the foregoing) any and all acts or omissions in connection, directly or indirectly, with the property, business or affairs, of any nature of said Maria De Los Reyes D. De Francis, during her lifetime or after her death, or any acts or omissions which have heretofore been done or suffered in connection with the conduct of her estate, or any acts or omissions which have been done or suffered by the O'Melvenys, or any of them, or the Law Firm, as officers, directors, attorneys, agents or employees of Dominguez Estate Company, Francis Land Company, Reyes Company, Dominguez Wilshire Company, Dominguez Water Company, or in any capacity or capacities whatsoever, whether like or unlike the foregoing, from the beginning of the world to date; and the O'Melvenys, and each of them, and the Law Firm, and each of its members and employees, agree, and by these presents do (upon the said releases by the Executor, the Reyes Company, the Carsons, and the Watsons becoming operative, as aforesaid) forever release and discharge the Executor, the Trustee, the Carson and the Watsons, and each of them, the Reyes Company, the Dominguez Estate Company, the Francis Land Company, the Dominguez Wilshire Company and the Dominguez Water Company, and each and all of them, from any demands,

Exhibit No. 1—(Continued)

claims, actions, causes of actions, and/or suits at law or in equity, of any and every nature whatsoever, that they, the O'Melvenys, or any of them, or the Law Firm, or any of its members or employees, have or may have had from the beginning of the world to date. As a part of the consideration for said releases by the Executor, the Reyes Company, and the Carsons and the Watsons, the Law Firm and the O'Melvenys covenant and agree upon said releases becoming operative as aforesaid, to deliver to Title Insurance and Trust Company as depositary all of their respective files and records relating or pertaining to the business of the said Maria De Los Reyes D. De Francis, her estate, Reyes Company, the Dominguez Estate Company, the Francis Land Company, the Dominguez Water Company, the Dominguez Wilshire Company, and such of the Carsons and Watsons as shall so request in writing, including all correspondence, briefs, memoranda, and working papers, whether or not the same constitute the private property of the persons agreeing to deliver the same. All of said files and records shall be deposited with said Title Insurance and Trust Company with the direction that the parties hereto, and each of them, by their respective representatives and officers, shall have the right to make such examination thereof at all convenient times as they, or any of them, may desire, and that they or any of them may make copies of any portion of said files and records, but with the understanding that none of said files and records

Exhibit No. 1—(Continued)

shall be taken from the possession of said Title Insurance and Trust Company without a proper receipt therefor, and that at the end of five years from the date hereof said files and records may be returned to said O'Melvenys and the Law Firm or to such parties as they may direct. Said Law Firm agrees to request Messrs. Miller, Chevalier, Peeler and Wilson, and Harry Hill, C. P. A., all of Los Angeles, to deliver into said escrow all files and records which they or any of them may have pertaining to the business of said corporations and said estate, to be held in said escrow in like manner as hereinabove set forth; and the O'Melvenys and the Law Firm agree otherwise to co-operate with the other parties hereto to the end that such files and records of Messrs. Miller, Chevalier, Peeler and Wilson and Harry Hill shall be made available for the use and inspection of all of the parties hereto.

6. The Executor shall pay in due course of the administration of said estate all of the legacies and bequests provided in said Will and Codicil other than the charitable bequests to be paid by the O'Melvenys as hereinbefore provided.

Subject to receipt by it of said shares of capital stock of Francis Land Company as hereinabove provided, and to approval by the Court, the Executor agrees to sell to Reyes Company, and it agrees to buy, at the price of One Thousand Dollars ($1,000.00) per share, such number of said eleven hundred (1100) shares of the stock of Francis Land

Exhibit No. 1—(Continued)

Company as it shall be necessary for said Executor to sell to raise and provide necessary funds for payment of the expenses of the administration of said estate and the legacies under said Will and Codicil in accordance herewith.

7. The Title Insurance and Trust Company agrees within fifteen (15) days from date hereof, subject to the approval of the Court, to sell two hundred seventy (270) shares of the capital stock of Watson Land Company, a California corporation, an asset of said estate, to the Watsons, and the Watsons agree to buy said two hundred seventy (270) shares of capital stock for the price of One Hundred Eight Thousand Six Hundred Eighty-nine Dollars and Twenty-seven Cents ($108,689.27), payable in cash.

8. Upon and subject to full performance by the O'Melvenys of the obligations devolving upon them under the paragraphs hereof designated "1(a)" and "1(b)", and subject to the closing of the probate administration of decedent's estate and distribution thereof as provided in paragraph 9 hereof, the Carsons and the Watsons severally in the proportion in which they are interested under Paragraphs "Sixth" and "Seventh" of the Will of said decedent, as supplemented by the Codicil thereto, and the Reyes Company, at the request of the Trustee and the Carsons and the Watsons, and each of them (and in consideration of the sale to it of certain shares of the capital stock of Francis Land

Exhibit No. 1—(Continued)

Company as hereinbefore provided) do hereby assume and agree to pay, settle and discharge, and do hereby indemnify and agree to save and hold harmless said Title Insurance and Trust Company, individually, and as such Executor, from and against all liability, or further liability, if any, for Federal Estate Tax, State Inheritance Tax and Gift Tax, arising, or that may arise, or may have arisen, or be asserted, by reason of the death of said decedent, or as a result of any transfers made by her in her lifetime, or on account of the transfer to said Executor of said eleven hundred (1100) shares of the capital stock of Francis Land Company, as herein provided, and from any liability for Federal and State Income Tax upon income received by said Executor as such or in any capacity in which it has represented said decedent prior to her death. The liability of the Carsons and the Watsons under the foregoing provision shall not, as to any one of them, exceed his proportionate part aforesaid of any such tax liability.

To secure performance of the foregoing agreement of indemnity against the tax liability aforesaid, if any, Reyes Company agrees promptly upon approval of this Agreement by the Court as herein provided, to deposit with Title Insurance and Trust Company municipal bonds of the then market value of Three Hundred Fifty Thousand Dollars ($350,000.00), approved as to value by Frank McGregor of Title Insurance and Trust Company, whereupon

Exhibit No. 1—(Continued)

Reyes Company shall be relieved of all obligation of such indemnity except to the extent of its interest in the securities so deposited which shall remain subject to all of the requirements, obligations and conditions of this indemnity, provided, however, that if the number of shares of Francis Land Company stock unsold by said Executor and available for the residuary trust provided in said Will, shall be less than eight hundred (800), then the amount and value of municipal bonds so to be deposited with Title Insurance and Trust Company shall be increased to the extent of One Thousand Dollars ($1,000.00) in value for each share of said Francis Land Company stock less than eight hundred (800) so unsold and available for such residuary trust.

Such Executor shall, at or prior to final distribution of said estate, file its final income tax return with the United States Collector of Internal Revenue at Los Angeles, California.

The Security aforesaid shall be exonerated and promptly returned to Reyes Company upon the expiration of three (3) years and sixty (60) days from the filing of said final income tax return, or from the date that the same should have been filed as aforesaid, whichever shall be earlier, unless there shall then be pending and undetermined or unpaid a claim or claims of the United States Government, or of the State of California, for taxes covered by this indemnity, in which event said Title Insurance

Exhibit No. 1—(Continued)

and Trust Company shall be entitled thereafter to retain such security (but only to the extent of a value not exceeding twice the amount of such claim, or claims, plus the interest, penalties and costs reasonably likely to accrue thereon to the time of final determination thereof) until final determination of such claim and payment of any tax which may be found due thereon; provided that if prior to the expiration of said period of three (3) years and sixty (60) days it shall be finally determined that there is no tax liability to which such indemnity applies, or, if any, such tax liability as may be finally determined shall be paid before the expiration of that period, then and in either such case such security shall be exonerated and forthwith returned to Reyes Company.

In the event that any claim is asserted by the United States Government, or by the State of California, against said Title Insurance and Trust Company as Executor or otherwise, for alleged taxes covered by the foregoing indemnity, said Title Insurance and Trust Company shall promptly notify Reyes Company thereof in writing at the address of said Reyes Company last filed with said Title Insurance and Trust Company.

Reyes Company is hereby authorized and empowered, in the name of said Title Insurance and Trust Company, individually and as Executor, or otherwise, to resist any such claim by court action or otherwise as it shall deem proper, and by counsel

Exhibit No. 1—(Continued)

designated by Reyes Company, but at the sole expense and cost of Reyes Company; and Title Insurance and Trust Company shall not incur any expense of such character unless authorized thereto in writing by Reyes Company, so long as it has ample security in its hands to cover any such claim. In the event of dissolution of the Reyes Company the notice to it herein provided shall be thereafter sufficiently given to all of its successors by delivery thereof to such single person or corporation as the majority of such successors shall from time to time designate in writing therefor, and in default of such designation shall be sufficiently given by delivery thereof to Francis Land Company; and upon such dissolution such majority of such successors shall have the rights to be exercised by the Reyes Company with respect to the employment of counsel to resist any such tax claim or to authorize resistance thereof by Title Insurance and Trust Company. If and to the extent that any such claim for such taxes shall become an absolute and fixed liability, finally payable by said Title Insurance and Trust Company, either because of failure of Reyes Company so to contest the same, or upon final determination of such contest adverse to the taxpayer, and if Reyes Company shall fail to pay and discharge the same within fifteen (15) days thereafter, Title Insurance and Trust Company may resort to the security aforesaid for payment thereof, and for such purpose may sell so much of said security as shall be necessary therefor and to satisfy the

Exhibit No. 1—(Continued)

amount so payable upon such claim, with all costs, interest and penalties accrued thereon, by sale at public auction to the highest bidder, in the manner provided by law for the enforcement of pledges, and after written notice to Reyes Company given as aforesaid not less than fifteen (15) days before such sale. Resort to such security shall be had in the following order: First, any cash constituting part thereof; next, any municipal bonds constituting part thereof, and next, any corporate stock included therein. Any remaining unapplied portion of said security shall thereupon be exonerated and promptly returned to Reyes Company. If after full application of such security any deficiency shall remain on account of tax liability to which such indemnity applies, the parties hereto who are beneficially interested in said estate shall be severally personally liable and obligated for and agree to pay upon demand, such deficiency, according to and in the proportions of their respective interests in said estate; and those of them who are beneficiaries under the trust provided in section "Twentieth" of said Will hereby severally transfer, assign and set over unto said Title Insurance and Trust Company all of their respective right, title, interest and estate in and under said trust and in the assets thereof and interest in the remainder therein to secure their respective obligations for such deficiency, it being understood that such liability for such deficiency is several, and that each party shall be (and that the security so given by him shall be)

Exhibit No. 1—(Continued)

liable for only the proportionate part of such deficiency computed on the basis aforesaid; provided that unless and until there shall be occasion to resort to such security for payment of such deficiency such beneficiaries under said trust and their successors shall be entitled to receive and enjoy all of the income from and benefits otherwise accruing to them as beneficiaries under said trust.

So long as the Reyes Company is not in default under the provisions of this indemnity the Reyes Company shall have and enjoy all of the rights and privileges incident to ownership of the security so deposited by it, including particularly the exclusive right to vote any corporate stock included therein, and to collect all cash dividends and interest on any such stock on other securities. Provided further that (unless there shall be occasion so to resort thereto) such assignments of such interests under said trust as aforesaid, to secure such obligations for such deficiency shall be and remain effective only while and so long as Title Insurance and Trust Company shall be entitled to hold and retain as hereinbefore provided, the security for such indemnity so to be deposited by Reyes Company; and upon exoneration of said last mentioned security as hereinbefore provided, such assignments shall automatically be and become wholly ineffective.

In the event of any dissolution or corporate reorganization of any corporation whose securities are deposited as aforesaid, said securities may be

Exhibit No. 1—(Continued)

withdrawn from deposit for the sole purpose of doing all necessary acts which may be required to carry out said dissolution or reorganization, but only upon the condition that all liquidating dividends or assets distributed as a result of said dissolution, or new securities issued in lieu of said securities so withdrawn, shall be forthwith deposited with said Title Insurance and Trust Company, to be held pursuant to all the terms and provisions of this paragraph, until the terms of said indemnity shall have been fully complied with, provided that any cash so received shall upon request of Reyes Company be promptly invested by Title Insurance and Trust Company in such investments as shall then be legal investments for trust funds under the laws of California, such investment to be thereafter held by Title Insurance and Trust Company in like manner as said original security.

Upon the deposit with said Title Insurance and Trust Company of any other securities acceptable to it in lieu of the securities deposited as aforesaid, said securities so deposited may be withdrawn. All securities so substituted shall be held by said Title Insurance and Trust Company subject to all the terms, conditions and provisions of this paragraph.

Nothing in this agreement contained shall be construed to obligate the O'Melvenys, or any of them, for payment of the taxes, if any, to which the foregoing indemnity applies, as hereinbefore in this Paragraph 8 hereof provided.

Exhibit No. 1—(Continued)

9. The Executor agrees, promptly upon the execution hereof, to take and prosecute appropriate proceedings to procure approval by said Superior Court, in the proceedings therein for the administration of said decedent's estate, of this Agreement, insofar as the same affects said estate, and for authorization to said Executor to take such action as shall be necessary or appropriate on its part to the consummation hereof. The Executor agrees promptly to file and present for approval its accounts and petition for distribution, and to proceed with all reasonable speed and diligence to close and distribute said estate, all thereof in accordance herewith and with said Will and Codicil as modified hereby. The Carsons and the Watsons, the Executor and the Law Firm, agree that the Executor shall show in said accounts as paid, and the Executor is hereby directed to pay, the following commissions and fees, viz.:

In lieu of balance of statutory Executor's commissions	$42,000.00
In lieu of statutory attorneys' fees to O'Melveny, Tuller & Myers and Cruickshank, Brooke & Evans	77,000.00
Special counsel fees to Cruickshank, Brooke & Evans	10,000.00
Special counsel fees to Joseph L. Lewinson	39,177.55

Exhibit No. 1—(Continued)

Special counsel fees to Gibson, Dunn & Crutcher ..... $ 39,177.55

Special counsel fees to Dempsey & Mackay 2,500.00

The Executor and the Law Firm covenant and agree that there will be no charge against or payable from said probate estate for Executor's commissions or attorneys' fees or other legal expenses, except as hereinabove provided, and the Carsons and the Watsons agree that the accounts of the Executor may be settled on said basis; provided, however, that if any actions or proceedings are instituted by or against the Executor or as to which it is a proper party prior to the decree of final distribution, or if any appeal is filed with respect to any order or decree made in said estate that are not now in contemplation of the parties and are not now foreseeable, then the Executor shall be entitled to its reasonable costs, expenses and compensation, including reasonable attorneys' fees incurred in connection therewith, whether by court action or otherwise.

The Carsons and the Watsons, and each of them, by these presents approve the accounts and supplemental accounts of the Executor heretofore filed in said probate proceeding, and waive the right of appeal from any court order approving them, or any of them. And the Carsons and the Watsons, and each of them, by these presents release Title

Exhibit No. 1—(Continued)

Insurance and Trust Company, individually and as Executor, from any and all claims, demands, actions or causes of action, and suits at law or in equity, that they have, or may have, by reason of any act or omission of said Title Insurance and Trust Company done or suffered as Executor of said estate during the period covered by its accounts filed in said proceeding as aforesaid.

The Carsons and the Watsons, and each of them, waive any right of appeal from any decree of distribution which shall be made in said estate proceedings pursuant to and in accordance herewith; and they likewise waive any right of appeal from any order made by said Court pursuant hereto in so far as the same shall approve this agreement and authorize said Executor to proceed hereunder.

10. Said Executor further covenants that promptly upon distribution, pursuant to said Will and Codicil, of the shares of Reyes Company belonging to said estate, it will deliver to said Reyes Company all of the assets thereof which may be in the possession or under the control of said Title Insurance and Trust Company, except the securities to be deposited by Reyes Company as provided in Paragraph 8 hereof.

11. The O'Melvenys and the Law Firm covenant that any and all certificates representing qualifying shares of stock now outstanding of the Francis Land Company, Dominguez Estate Company,

Exhibit No. 1—(Continued)

Dominguez Wilshire Company and Dominguez Water Company standing in their names, or the names of any of them, or in the names of their employees, agents and representatives, will be properly endorsed and delivered back to the respective companies.

12. Upon and subject to full and faithful performance by the O'Melvenys of the obligations devolving upon them under the paragraphs of this Agreement designated 1 and 2, and not otherwise, the Carsons and the Watsons and said Title Insurance and Trust Company, in so far as they are, respectively, stockholders of the following named corporations, viz., Reyes Company, Francis Land Company, Dominguez Estate Company and Dominguez Wilshire Company, hereby consent to the complete release by each of said corporations of all demands which they may have against said O'Melvenys, or any of them; and (but only upon and subject to consent thereto of all other stockholders of each of said corporations executing the same) they hereby authorize and direct those of said corporations of which they are stockholders, respectively, to execute such releases, and upon such condition, covenant and agree to vote all shares in said corporations directly or indirectly controlled by them accordingly.

13. The parties hereto agree that each will, at any time, make, execute and deliver all instruments, conveyances, powers of attorney, authorizations and

Exhibit No. 1—(Continued)

all other documents as the other of them, their executors, administrators, successors or assigns, shall reasonably require for the purpose of giving full effect to this Agreement and its conditions, covenants, agreements and provisions herein contained; provided, however, that no party shall be required to sign any instrument which will in any manner require the party signing to pay any money or incur any obligations or liability other than as provided in this Agreement.

It is mutually understood and agreed by all parties hereto that for the purpose of procuring a decree of distribution in said estate which shall conform to the terms of this Agreement, this Agreement when operative shall be and operate in lieu of any transfer or assignment which might otherwise be required of any party hereto for the purpose of giving full force and effect to this Agreement in said decree of distribution, and each of the parties hereto hereby does so transfer and assign.

14. And further in consideration of, but only upon and subject to the performance by the O'Melvenys of all of the obligations developing upon them under the paragraphs of this Agreement designated 1 and 2, the Executor (subject further to the approval of this Agreement and authorization therefor by said Court), the Reyes Company and the Carsons and the Watsons, and each of them, (individually, as heirs and legatees and/or

Exhibit No. 1—(Continued)

transferees of Maria De Los Reyes D. De Francis, as heirs of Guadalupe Dominguez, deceased, as stockholders of the Dominguez Estate Company, Francis Land Company and Reyes Company, and in any and all capacities whether like or unlike the foregoing) do hereby, each for himself or itself, further covenant and agree to and with the O'Melvenys and the Law Firm as follows:

(a) That he or it will not, either alone or in conjunction with any other or other of those joining in this covenant, at any time, or in any court, directly or indirectly, institute, maintain, or allow the use of his or its name for the institution or maintenance of any action at law or suit in equity, or special proceeding against the O'Melvenys and the Law Firm, or any of them, upon any demand, claim, action or cause of action hereinbefore in the paragraph hereof designated 5 mentioned and so agreed to be released, and subject only to such performance by the O'Melvenys, this covenant not to sue shall be deemed fully effective, irrespective of any question as to the effectiveness of such release; and

(b) That he or it will not, either alone or in conjunction with any other or others of those joining in this covenant, at any time or in any court attack or seek to invalidate the O'Melvenys' right to transfer, as hereinbefore provided, said shares of Francis Land Com-

Exhibit No. 1—(Continued)

pany and of Dominguez Estate Company, and their title thereto at the time of such transfer, in such manner as thereby to create liability on the part of the O'Melvenys under their representation, covenant and agreement aforesaid, if such title, and in consequence thereof, the title of such transferees and purchasers thereof from the O'Melvenys, shall not be otherwise attacked, questioned or disputed; that is to say, the parties hereto will not, directly or indirectly, initiate such attack or question such title so long as the same shall not be otherwise questioned; but this provision is not intended, and shall not be construed, to impair, limit or restrict such representation, covenant and agreement of the O'Melvenys with respect to the shares so to be transferred and sold, or the right of any of the parties hereto to enforce the same by any and all appropriate means, and, as an incident thereto, to question such title of the O'Melvenys, if such title is attacked by parties other than the parties hereto.

15. The undersigned Carsons and Watsons (in whatever capacity they may occupy with respect to Reyes Company), and Title Insurance and Trust Company, hereby consent to and direct the distribution of all the assets of, and dissolution of said Reyes Company, within a reasonable time after the date hereof; and with this end in view hereby agree

Exhibit No. 1—(Continued)

to take all necessary steps to accomplish such distribution and dissolution, including the signing of any and all consents, directions to directors, voting in favor thereof as stockholders and/or directors or otherwise; and hereby covenant not to take any action to prevent said distribution or dissolution. This agreement shall be construced as a direction to the officers and directors of Reyes Company to proceed with said distribution and dissolution and a consent by the stockholders thereto. Upon any such distribution all assets other than cash shall be distributed ratably in kind.

16. For the convenience of the parties, this Agreement shall be consumated through an escrow with said Title Insurance and Trust Company, which shall be deemed open upon the execution hereof, and, so far as reasonably possible, performance hereof shall be had through such escrow, and to such end, subject always to the conditions hereof, the parties respectively agree promptly to deposit therein the things required of them hereunder, with appropriate instructions for use therof in accordance herewith.

17. This Agreement and each any every covenant hereof shall be binding upon and inure to the benefit of the parties hereto, their heirs, executors, administrators, successors and assigns. This Agreement may be signed in counterpart, each of which shall be deemed an original.

In Witness Whereof, the corporate parties hereto

Exhibit No. 1—(Continued)

have respectively caused their corporate seals to be hereto affixed, and this instrument to be executed in their behalf by their undersigned officers thereunto duly authorized, and the other parties hereto have executed the same, all thereof as of the day and year first above written.

/s/ HENRY W. O'MELVENY,
/s/ STUART O'MELVENY,
/s/ JOHN O'MELVENY,
/s/ DONALD O'MELVENY,

By JOHN O'MELVENY,
His Attorney in fact.

/s/ ISABEL WATSON O'MELVENY,

/s/ PHILA MILLER O'MELVENY,

By JOHN O'MELVENY,
Her Attorney in fact.

As Parties of the First Part, sometimes herein collectively designated as "O'Melvenys";

/s/ EDWARD A. CARSON,
/s/ DAVID A. CARSON,
/s/ JOSEPH N. CARSON,
(also known as Joseph Carson)

/s/ VIRGINIA CALDWELL,
/s/ LUCY RASMUSSEN
/s/ AMELIA ATHERTON DRUDIS
/s/ VICTORIA L. COTTON
/s/ VALERIE C. HANRAHAN

Exhibit No. 1—(Continued)

/s/ GLADYS C. SCHELLER
/s/ JOHN VICTOR CARSON
/s/ GEORGE EARL CARSON
(also known as G. Earl Carson and as Earl Carson)

As Paries of the Second Part, sometimes herein collectively designated as "Carsons";

/s/ ROBERT L. WATSON,
/s/ GRACIA WATSON ROLLINS,
/s/ CHARLES I. BAKER,

Trust Officer, (Title Insurance and Trust Company, as Assignee of and Trustee for Gracie Watson Rollins)

/s/ LUCILE WATSON MARTIN,
/s/ ANITA WATSON
A. L. W.

/s/ ALPHONSE (LOUIS) WATSON
/s/ JOHN F. WATSON
/s/ VICTORIA LIMACHER
/s/ LAVENA WATSON BROWN,
By /s/ ALPHONE LOUIS WATSON,
Her Attorney in fact.

/s/ WATSON JARRETT,
JARETT ESTATE COMPANY,

a corporation (as successor of Watson Jarrett and Dudley Jarrett)

Exhibit No. 1—(Continued)

[Seal] WATSON E. JARRETT,
President,

H. H. JARRETT,
Secretary.

As Parties of the Third Part, sometimes herein collectively designated as "Watsons";

[Seal] REYES-DOMINGUEZ COMPANY,
a corporation,

By H. H. COTTON,
President,

And FRED DREW,
Secretary.

As Party of the Fourth Part, sometimes herein designated as "Reyes Company";

[Seal]
TITLE INSURANCE AND TRUST COMPANY, individually and as Executor of the Will of Maria De Los Reyes D. De Francis, Deceased, and as Trustee designated by said Will in respect of the trusts declared therein,

By CHARLES I. BAKER,
Vice-President,

And ROBERT A. BRANT,
Secretary.

As Party of the Fifth Part, sometimes herein designated, according to the capacity in which it is referred to, as "Executor" or as "Trustee";

Exhibit No. 1—(Continued)

/s/ H. W. O'MELVENY,

/s/ JOHN O'MELVENY

/s/ WALTER K. TULLER

/s/ LOUIS W. MYERS

/s/ PAUL E. SCHWAB

/s/ PAUL FUSSELL

/s/ WILLIAM W. CLARY

/s/ JAMES L. BEEBE

/s/ HARRY L. DUNN,

/s/ PIERCE WORKS

Copartners under the firm name and style of O'Melveny, Tuller & Myers, together with

all associate attorneys regularly employed by said Copartners,

As Parties of the Sixth Part, sometime herein designated as "Law Firm".

This is to certify the foregoing has been compared with an executed duplicate of the original agreement on file in the office of Title Insurance and Trust Company and is a true copy thereof.

July 18th, 1936.

[Seal] /s/ ANGUS HENDERSON,

Notary Public in and for the County of Los Angeles, State of California.

EXHIBIT 2

Information Schedule

Reference is hereby made to a Property Settlement Agreement, copy of which is hereto attached and made a part of this return, and as additional information the following is submitted.

First party transferred to second party under the terms of the agreement, property of the following description and approximate values:

Nominal value residue Francis Estate (assignment attached)		$ 1.00
215 shares Watson Land Co		86,548.25
Cash		1,500.00
50 shares Dominguez Estate Co	$50,000.00	
Less related liability of	8,000.00	42,000.00
28 shares Reyes-Dominguez Company		34,433.84
Household furniture		1,000.00
Ford Sedan		500.00
Total		$165,983.09

The parties to the agreement believe that the transfer of said property at said approximate values represents not to exceed a reasonable provision for and discharge of the legal obligations of the first party to second party and that therefore the transfer was not a transfer without an adequate and full consideration in money or money's worth.

Property Settlement Agreement

This Agreement, made and entered into this 26th day of February, 1936, by and between John F. Watson, hereinafter referred to as first party, and Helen R. Watson, hereinafter referred to as second

Exhibit No. 2—(Continued)

party, each and both residents of the County of Los Angeles, State of California.

Witnesseth That

Whereas, the parties hereto did intermarry over fifteen years ago and ever since have been and now are husband and wife, and

Whereas such unhappy differences have arisen between the said parties that it seems to both of them inadvisable for them to continue their marital relation and to live together as husband and wife, and

Whereas on account thereof the parties mutually desire to make a full, complete and final settlement of their various property rights, obligations and rights of inheritance,

Now Therefore, it is hereby agreed by and between the parties hereto as follows:

I.

The first party has paid to the second party the sum of One Thousand Five Hundred ($1,500.00) Dollars, receipt of which is hereby acknowledged.

II.

The first party agrees to deliver and transfer to the second party within thirty (30) days from the date hereof the following stocks and securities:

1. 215 shares capital stock of the Watson Land Company, clear of all encumbrance.

2. 25 shares capital stock of Dominguez

Exhibit No. 2—(Continued)

Estate Company, clear of all encumbrance.

3. 25 shares capital stock Dominguez Estate Company, subject to an indebtedness of $8000.00 for payment of which said stock is pledged as security.

4. 28 shares capital stock Dominguez Reyes Estate Company, free and clear of all encumbrance.

III.

First party has delivered to the second party, and she has now in her possession, all of the household furniture, equipment and furnishings now owned by said parties, and it is mutually agreed that from this date forth all such property shall be and become the sole and separate property of the second party.

IV.

The first party has delivered to the second party, and the second party now holds one Ford Sedan, and it is mutually agreed that the same shall from this date forth be and become the sole and separate property of the second party.

V.

The first party acknowledges receipt and possession of one Ford house-car and one Ford Coupe, and it is mutually agreed that both of said automobiles shall from this date forth be and become the sole and separate property of the first party.

Exhibit No. 2—(Continued)

VI.

It is mutually agreed that the second party shall assume and become solely responsible for the lease which both parties have executed upon that certain house known as #1070 Atchison Street, in Altadena, Los Angeles County, California, it being further mutually agreed that the second party shall have the sole and exclusive right to use and occupy said premises under the terms of said lease, or to make such other disposition thereof as the second party may desire.

VII.

It is mutually agreed that all other property of every kind and character now owned or hereafter acquired by the first party shall be and become his sole and separate property from this date forth, and that all property which the second party may hereafter acquire or may now have in her possession shall be and become her sole and separate property from this day forth.

VIII.

For and in consideration of the foregoing, each of the parties hereto agrees to and does hereby release and discharge the other from any and all claims, demands and liabilities of whatsoever kind or nature and for support or maintenance or alimony arising by any reason from the marital relations of the parties hereto or otherwise, except in this agreement expressly set forth. Said parties

Exhibit No. 2—(Continued)

hereto do each further agree to and do hereby assign, transfer, relinquish and waive unto the other all of his or her rights in or to all property, asquisitions and earnings of the other of whatever type or nature and wheresoever situated, whether the same be community or separate property and whether the same may be in the possession or hereafter acquired. Each of the parties hereto further agrees to and does hereby waive and relinquish to the other all of his right or her right, title and interest in their claims upon or against the estate of the other and all rights of inheritance to or from the other or the estate of the other and all statutory right to administer the estate of the other.

IX.

It is further expressly understood and agreed that neither party shall at any time be required to pay unto the other party any sum whatever for alimony, support, maintenance, attorney fees, court costs or for any other purpose whatsoever in addition to those hereinbefore expressly set forth.

X.

Each of the parties hereto mutually covenant and agree to execute such deeds, assignments, conveyances or other documents as may be necessary to fully transfer and convey the property hereinbefore mentioned and any and all other property which either party may hereafter acquire from time to

Exhibit No. 2—(Continued)

time to the end that a marketable title to any such property may be given, and without further consideration or compensation.

XI.

It is further mutually agreed that this property settlement may be filed or recorded and used in any court proceeding that may arise between the parties, and that in any divorce proceeding or proceeding for separate maintenance may be used as evidence of a conclusive property settlement agreement between the parties here to.

XII.

Each of the parties hereto certifies that he or she has fully read the above and foregoing agreement and is familiar with the contents and effects thereof, and that he or she executes the same freely and voluntarily, and after being fully advised and in so doing understands and intends the same shall constitute and be and is a full, final and complete settlement of all the property rights of the parties hereto, and that the within writing contains the entire agreement of the parties hereto.

In Witness Whereof the parties hereto have hereunto set their hands and seals the day and year in this agreement first above written.

.....

Second Party.

.....

First Party.

Exhibit No. 2—(Continued)

State of California,
County of Los Angeles—ss.

On this 26 of February, 1936, before me, the undersigned, a Notary Public in and for said County and State, residing therein, duly commissioned and sworn, personally appeared John F. Watson known to be to me the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.

In Witness Whereof, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

.....

Notary Public in and for said County and State.

State of California,
County of Los Angeles—ss.

On this 26 day of February, 1936, before me, the undersigned, a Notary Public in and for said County and State, residing therein, duly commissioned and sworn, personally appeared Helen R. Watson, known to me to be the person whose name is subscribed to the within instrument, and acknowledged to me that she executed the same.

In Witness Whereof, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

.....

Notary Public in and for said County and State.

EXHIBIT 3

This Agreement made and entered into this 3rd day of October, 1940, by and between

> Louisa Watson and Susana Watson Lacayo, as Executrixes of the Last Will and Testament of Robert Lee Watson, deceased, hereinafter referred to as the First Parties

and

> J. R. Lacayo, hereinafter referred to as the Second Party,

Witnesseth:

Whereas the Second Party has made demand upon First Parties for the transfer to him of two and two/thirds (2-2/3) shares of the stock of the Francis Land Company, a California corporation, and two and seven/twelfths (2-7/12) shares of the stock of the Watson Land Company, a California corporation, together with dividends paid thereon subsequent to December 19, 1935, which shares now stand in the name of First Parties, as such Executrixes; and

Whereas the basis for such claim is a gift made on December 19, 1935, by the decedent, Robert Lee Watson to Second Party; and

Whereas the First Parties were also donees under said gift and of the same properties given to Second Party, though in different proportions, and under which gift, on the petition of First Parties, certain shares of stock in said corpora-

Exhibit No. 3—(Continued)

tions and the dividends paid thereon, have been ordered transferred and paid, respectively, from said Estate to the First Parties, in certain individual shares, as in said order more particularly set forth, reference to same being hereby made for all further particulars thereof; and

Whereas, by reason thereof and by reason of their knowledge of the facts surrounding the making of said gift, First Parties recognize the fact that said gift was made and the justice of the claim so asserted by Second Party; and

Whereas, since First Parties and/or the Estate of which they are Executrixes would therefore have no defense to an action brought to compel the conveyance to Second Party of said shares and the payment of said dividends and that any such action would only result in unnecessary costs, expenses and delay;

It is therefore hereby mutually agreed as follows:

First Parties, in consideration of Second Party withholding and waiving his right to bring any action for the transfer of said shares to him and for the payment to him of said dividends, and in recognition of the gift so made by said Robert Lee Watson, as aforesaid, hereby agree to transfer to said Second Party the number of shares in each of the above named companies, respectively, as hereinbefore set out, and to pay to said Second Party all dividends received on said shares, directly or indirectly, either by said Robert Lee Watson

Exhibit No. 3—(Continued)

in his lifetime, or by his Estate subsequent to his death, and Second Party, in consideration of the receipt of a certificate in each of said Companies for the number of shares as aforesaid, and of the payment to him of said dividends, hereby promises and agrees to withhold and waive any right of action against said Executrixes and/or the Estate of said Robert Lee Watson for the transfer of said shares in said companies, or either of them, to Second Party and for the payment to him of the dividends thereon, and hereby acknowledges full satisfaction of all claims of every kind and character against said Executrixes and/or said Estate by reason of the gift so made to him as aforesaid.

It is further agreed that the dividends hereinbefore referred to and due hereunder are as follows:

On the stock of the Francis Land Co., $799.15

On the stock of the Watson Land Co., $169.87

In Witness Whereof the parties hereto have hereunto set their hands the day and years first hereinabove written.

LOUISA WATSON,
SUSANA WATSON LACAYO,
Executrixes of the Last Will and Testament of Robert Lee Watson, deceased,
First Parties.

J. R. LACAYO,
Second Party.

EXHIBIT 21

This Indenture of Lease, made and entered into in duplicate this 31st day of August, 1923, by and between Maria De Los Reyes D. De Francis, a widow, of Los Angeles, California, hereinafter called the "Owner," and Union Oil Company of California and Shell Company of California, corporations, hereinafter called "Lessee",

Witnesseth

That for and in consideration of the sum of Ten Dollars ($10), lawful money of the United States of American, paid by the Lessee to the Owner, the receipt of which is hereby acknowledged, and for other consideration, the receipt of which is hereby acknowledged, and for and in consideration of the covenants to be kept, the acts to be performed, and the rents and royalties to be paid by the Lessee to the Owner, as hereinafter specified, the Owner does hereby lease, demise and let unto the Lessee, their successors and assigns, and the Lessee hereby takes and accepts from the Owner, for the term and time, and for the purposes, and under and in accordance with the stipulations, agreements and conditions hereinafter set forth, that certain real property situate in the County of Los Angeles, State of California, and more particularly described as follows, to-wit:

Situate in the Rancho San Pedro, in the county

Exhibit No. 21—(Continued)

of Los Angeles, state of California, and more particularly described as follows, to-wit:

Commencing at a post in the Southeast corner of the 200-acre tract known as the "Homestead of Guadalupe, Susana and Reyes Dominguez," as shown upon a map filed by the Commissioners in Partition in Case No. 3284, files of the Superior Court of Los Angeles County, and running thence along the Southern boundary thereof S. 88 deg. W. 45.59 chains to the post in the Southwest corner of said tract; thence along the West boundary thereof N. 8¼ deg. 44.73 chains to the post in the Northwest corner of said tract and in the Southwest corner of the Homestead Tract of Victoria D. de Carson; thence along the Western boundary of the latter N. 8¼° E. 3.45 chains to a post in the South line of Victoria Street; thence along said line S. 88° W. 114.39 chains to a post in the Northeast corner of the Highland Tract of 500 acres of Victoria D. de Carson; thence along the same South 50.18 chains to the Southeast corner thereof; thence South 3.14 chains along the Highland Tract of Guadalupe Dominguez to a post; thence along the same Tract N. 88° E. 152.20 chains to the West line of Railroad Avenue, a point 100 feet Westerly from the middle of the Los Angeles and San Pedro Railroad; thence parallel to said Railroad N. 8¼° E. 6.04 chains to the place of beginning containing 616.40 acres, excepting, however, so much of Wil-

Exhibit No. 21—(Continued)

mington Avenue as runs over this tract, being a strip of land 53.52 chains long, and one chain wide, and containing 5.35 acres, having a balance of 611.05 acres in this allotment—being the tract of land known as the "Highland Tract," allotted to Maria de Los Reyes Dominguez, as shown upon a map filed by the Commissioners in Partition in Case No. 3284, files of the Superior Court of Los Angeles County, to which map and the record of the final decree therein reference is hereby made.

Saving, excepting and reserving, however, from said tract of land the following, to-wit:

1st. Beginning at the intersection of the southerly boundary line of the Maria de Los Reyes Dominguez de Francis 611.05 acre allotment in the partition of the Ranch San Pedro as per Superior Court Case No. 3284, Records of Los Angeles County, with the Westerly boundary line of the right-of-way of the Pacific Electric Railway Company, thence northerly along said westerly boundary line a distance of 398.64 feet more than less to the southerly boundary line of the Reyes, Guadalupe and Susana Dominguez 200 acre allotment in the partition above referred to; thence westerly along said southerly boundary line of said 200 acre tract a distance of 2895.54 feet more or less to the southwest corner thereof; thence southerly and parallel to the right-of-way of the Pacific Electric Railway Company above referred to, a distance of 398.64 feet more or less to the southerly boundary

Exhibit No. 21—(Continued)

line of the said Maria de Los Reyes Dominguez de Francis 611.05 acre allotment; thence easterly along said southerly boundary line a distance of 2895.54 feet more or less to the point of beginning. Containing 26.22 acres.

2nd. A portion of that parcel of the Dominguez Estate containing 611.05 acres which was allotted to Maria de Los Reyes Dominguez (de Francis) in the Dominguez Partition of 1884, described as follows:

Beginning at the Northwest corner of said tract, being a point on the east line of the Wilmington Road 2146.0 feet South of its intersection with the south line of Victoria Street and from which the southwest corner of the 200 acre tract allotted to Reyes, Guadalupe and Susana Dominguez in the said Dominguez Partition bears South 68° 35′ East, 2474.96 feet; thence East 526.96 feet to the Northeast corner; thence South 510 feet to the Southeast corner; thence West 498 feet to the Southwest corner; thence North 3° 15′ West 510 feet along the east line of the Wilmington Road to the Northwest corner, the place of beginning, containing 6.00 acres of land.

3rd. 50 acres of land situate in the southeast corner of said 611.05 acre tract described as follows:

Bounded on the South by the south line of said 611.05 acre tract; bounded on the East by the west line of the Homestead Tract extended so as to intersect the said south line of the said 611.05 acre

Exhibit No. 21—(Continued)

tract; bounded on the North by a line running East and West through the center of said 611.05 acre tract; bounded on the west by a line parallel to the west line of the Homestead Tract and at such a distance therefrom as to include 50 acres of land. Together with the exclusive right, subject to the terms, provisions and conditions hereof, to explore and drill for, develop, collect, obtain, take, save, remove, market and otherwise use, enjoy and dispose of any and all kinds of crude petroleum oil, gas and any and all hydrocarbon substances in, upon, out of, and from said lands; together also with the right, subject to the terms, provisions and conditions hereof by and with any and all improvements and appliances, to use and enjoy the necessary rights-of-way for ingress and egress into, upon and across said land for the operation thereof under this indenture; together also with the right, subject to the terms, provisions and conditions hereof, to build, erect, operate, maintain and enjoy roads, derricks, rigs complete, boilers, tanks, tank houses, bunk houses, pumping stations, pipe lines, telephone, power and light lines, and other structures, apparatus and equipment suitable for use in connection with the drilling for, developing, collection and transportation on said lands of said substances produced hereunder. Provided, however, that no topping plant, of any kind of manufacturing or refining plant, other than a gasoline extraction plant or plants, an oil dehydrating or cleaning plant or plants, and a plant or plants for topping

Exhibit No. 21—(Continued)

or refining or otherwise treating the oil or gas produced from said leased premises, shall be installed on said land without the written consent of the Owners first had and obtained. Further provided, that all roads shall adapt themselves so far as practicable to the present and subsequent uses of the land by the Owner; for example, if any of the land shall be surrendered and subsequently subdivided, the Lessee shall use any roads or streets made in such subdivision where such is practicable, and any roads used by the Lessee shall be located where they shall be least detrimental to the use of said leased lands permitted to the Owner.

Said lease is made subject to the following encumbrances, to-wit:

First. All taxes for the fiscal year 1923-1924 which the Owner agrees to pay.

Second. All existing farming leases whether of record or not.

Third. Easements for pipe lines, irrigating ditches and canals, pole lines, roads and highways, whether of record or not.

Said lease is made for the term and upon the conditions and agreements hereinafter set forth, and the Owner and Lessee respectively agree to take and perform the respective conditions and agreements to be kept and performed by them respectively, as follows, to-wit:

Exhibit No. 21—(Continued)

I.

Possessory Rights:

The possession by the Lessee of the leased lands shall, subject to the aforesaid encumbrances, be sole and exclusive, excepting only that the Owner reserves the right to occupy and use, either in person or by tenant, the surface of the leased lands or any part thereof for residence, agricultural, horticultural or grazing purposes in so far as the same shall not at the time interfere with the rights and operations of the Lessee. The Lessee agrees to conduct its operations so as to interfer as little as practicable with the reserved uses of said leased lands from time to time, bearing in mind the Lessee's paramount right to obtain and remove oil and other hydrocarbon substances at the place or places best adapted therefor.

II.

Lessee Duties Relative to Surface Rights:

The Lessee shall pay to the Owner a reasonable cash sum for all damages to pipe lines, canals, buildings, and other structures, and for trees and growing crops on the leased lands destroyed or injured by reason of its operations under this lease. If the parties in interest are unable to agree upon the amount of such damage, then each party shall within ten days after written notice by either of them to the other demanding arbitration, select and in writing notify the other party of the name

Exhibit No. 21—(Continued)

of an arbitrator and the two arbitrators so selected shall choose a third and such three arbitrators shall examine the property and consider any matters submitted to them by the parties, and make a written award of the amount of such damages, which award of a majority of said arbitrators shall be finally binding and shall be paid in money by the Lessee within thirty days after being served with a copy thereof.

The Lessee agrees to save and hold the Owner harmless against and from the claims of any of the present tenants, arising on account of the Lessee's operations under this instrument. The Lessee shall lay its pipe lines which run across cultivated areas so that the top thereof shall be at least eighteen inches below the surface of the soil, and whenever so requested by the Owner shall, with reasonable diligence, erect physical evidences, such as posts or monuments, to show the line of demarcation of the land exclusively needed by it around each well dug by it and the land covered by any sump hole or used by it and the land required for use for tanks, reservoirs, boilers, pump houses and other buildings or works.

The Lessee may from time to time designate by written notice to the Owner and by appropriate posts or monuments placed upon the ground any land not exceeding five acres in area about any proposed well, tank site, building, or other works, the exclusive possession of which will be required

Exhibit No. 21—(Continued)

by the Lessee in its operations hereunder, and also the location of any proposed roadway or other right-of-way, across the lands hereby leased, and the Lessee shall not be liable for any damages to crops or improvements planted or placed upon the lands so designated after such designation is made. It being understood, however, that the Lessee shall include within any such designated area only such lands as may be reasonably required and used by the Lessee for its works and operations thereon.

III.

Water Rights:

The Lessee shall be entitled to use, free of charge in connection with its operations under this lease any water it may develop upon the leased lands. If and while the Lessee does not use the same in its operations, the Owner may use it for her surface operations, or grant the same to the Dominguez Water Company with such easements for rights of way as may be necessary for its use, nevertheless said grant shall be subordinate to the terms of this lease, without expense to the Lessee. In the event that any well drilled by the Lessee on the leased lands shall be abandoned by it and there has been water encountered in such quantities as might make pumping thereof practicable, the Lessee shall permit the necessary casing therein to remain therein for a period of thirty (30) days after written notice from the Lessee to the Owner, and during such

period the Owner shall have the right to purchase said casing at seventy-five (75) per cent of its then cost price at the well.

IV.

Twenty-Year Term and Rights of Lessee Thereafter:

The term of this lease shall be twenty years from and after the date hereof and for so long thereafter (but not exceeding twenty additional years) as oil, gas or other hydrocarbon substances shall be produced and saved from said leased lands in commercially paying quantities.

At the expiration of said twenty-year drilling period, all undrilled lands shall be free from the terms and conditions of this indenture; provided that the Lessee shall have full right to retain, operate, redrill, clean out, deepen, repair, pump and work all oil wells or gas wells or other wells or other works existing upon said leased lands at the time of the expiration of said drilling period, so long thereafter (but not exceeding twenty additional years) as oil, gas or other hydrocarbon substances shall be produced and saved from said wells or works respectively in commercially paying quantities, upon the rent and royalty and subject to the terms and conditions in this lease specified; and the Lessee shall have and retain with each such well, so long as it shall be so retained and operated, a parcel of land around each well of such size, not exceeding five (5) acres, as if may reasonably deem

Exhibit No. 21—(Continued)

necessary, and so long as any well or wells shall be so retained and operated the Lessee shall have and retain all reasonable rights-of-way for ingress and egress to and from said well or wells and full rights-of-way for its water lines, gas lines, oil lines and other pipe lines, and telegraph, light, power and telephone lines, and all other means of access, and all works and improvements useful for the operation of each of said wells, and the production, storing and/or transporting of the product thereof upon the leased lands.

Drilling Operations of Lessor:

(A) Original Exploration. The Lessee hereby undertakes and agrees to pay the Owner the sum of $3.00 per acre on the number of acres of land hereby leased, to-wit: 528.83 acres, monthly on the first day of each and every month beginning September 1, 1923, and continuing until such time as the Lessee has commenced the actual drilling of a well for oil or gas on the demised premises under this lease.

The Lessee covenants that it will commence the drilling of a well for oil or gas on the demised premises at such time as the usual course and practice of oil companies will allow for the completion of the same by the first day of July, 1925, and when so commenced shall thereafter prosecute the drilling of said well in good faith, diligently and continuously except for excusable delays specified in clause (G) hereof until said well is completed.

Exhibit No. 21—(Continued)

The Lessee may at its option abandon the well before completion, but in that event shall commence the drilling of another in lieu thereof within ninety days after the cessation of work upon the abandoned well, and shall continue the drilling of such well in the same manner as provided for the first well until each well is completed.

If during the course of its drilling operations Lessee shall conclude that oil or gas in paying quantities will not be found on said premises, it may surrender said lands as provided in clause XIII hereof entitled "Right of Lessee to Quitclaim".

(B) Further Drilling Requirements. The Lessee further covenants that it will commence the drilling of additional wells on said demised premises within such time as the usual course and practice of oil companies will allow for the completion of two wells by the first day of July, 1926, and within such time as the usual course and practice of all companies will allow for the completion of two oil wells by the first day of July, 1927, and will each year thereafter within such time as the usual course and practice of oil companies will allow for the completion of two wells by July 1st of each succeeding year up to and including the year 1933, making in all seventeen (17) wells.

After the expiration of said period, to-wit, the drilling of said seventeen (17) wells, the Lessee covenants that it will prosecute the drilling on said property diligently and continuously until the

Exhibit No. 21—(Continued)

equivalent of one well for each fifteen (15) acres of land hereby demised shall have been completed upon said premises.

The Lessee covenants that it will prosecute the drilling of each of the wells above referred to in good faith, diligently and continuously, except for excusable delays specified in clause G hereof until said wells, respectively, have been completed.

In the event that any portion of said demised premises be released from the provisions of this lease, the number of wells to be drilled on said demised premises shall be reduced by one well for each fifteen (15) acres so released.

The Lessee may at its option abandon any well before completion, but in that event shall commence the drilling of another in lieu thereof within ninety days after cessation of work upon the abandoned well, and shall continue the drilling of the same with like diligence as required for the first well until completion.

(C) What Constitutes a Completed Well.

A well drilled hereunder shall be deemed a completed well either—

1. When the same shall have been drilled to a depth of at least three thousand five hundred (3,500) feet, and when the Lessee shall have ceased to drill therein and have abandoned the same as unsuccessful; or

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2. When igneous and metamorphic rock is encountered at a lesser depth; or

3. When oil or gas shall have been found in quantities sufficient to pay to pump or otherwise secure and save, as shown by a pumping test of not exceeding thirty days, and the Lessee shall have elected, for the time, to cease further drilling in said well.

(D) Additional Wells. During the aforesaid twenty-year drilling period the Lessee may drill as many additional wells as it chooses and may redrill, deepen, repair and clean any and all wells drilled on said property.

(E) Offset Wells. In case at any time after the date of this lease, and during the twenty-year drilling period, but no longer, any well shall have been drilled upon lands in the vicinity of the leased premises and within three hundred (300) feet of any boundary line of said leased lands, and shall, when put on the pump or permitted to flow, have produced at least one hundred (100) barrels of oil per day during a thirty-day test, then the Lessee shall, within ninety (90) days after the expiration of said test, commence drilling operations for an offset well upon the leased lands (unless a well has been already drilled on the leased lands which is so located as to amount to an offset well as herein provided). Any such offset well shall be located within three hundred (300) feet of the boundary line of the leased lands and within three hundred

Exhibit No. 21—(Continued)

(300) feet of a line drawn at right angles from the well to be offset to the boundary line of said leased lands. Said offsetting requirements are, however, subject to the following conditions, namely:

First. One well, if otherwise meeting the conditions of this subsection headed "Offset Wells," may constitute an offset to two or more wells.

Second. Any such offset well shall count upon the number of wells specified to satisfy the drilling requirements set forth in subsection (B) hereof entitled, "Requirements after Discovery."

Third: The Lessee shall not be required to drill a well to offset any well drilled on adjoining lands at the time owned by the Owner.

Any offset well which the Lessee is required to commence, as aforesaid, shall be drilled and completed with reasonable diligence in the same manner as is required for other wells as set forth in this indenture.

(F) Remedy for Default. Forfeiture of Lessee's interest under this indenture to the extent and in the manner specified in section XIV hereof, entitled "Fortfeiture," shall be the sole and exclusive remedy of the Owner in respect of any default by the Lessee regarding any of its drilling obligations under this section.

(G) Excuses for Delay in Drilling. The Lessee shall not be bound to begin or carry on the work of drilling wells or other operations hereunder on

Exhibit No. 21—(Continued)

Sundays or legal holidays, nor shall it be required to work at night when it would incur risk of injury to operators or property by so doing, nor shall it be required to begin or required to carry on said drilling or other operations when prevented by acts of God or the weather or strikes, lockouts, war, unavoidable shortage of water or of materials or inability to secure proper delivery of materials, accidents or other unavoidable causes whether of the character above named or of different character.

(H) Suspension of Drilling Operations. The Lessee may suspend work of drilling any well or wells other than the first well drilled hereunder, so long as and during the time that the posted price for oil in Los Angeles County is ninety (90) cents per barrel or less for oil of the gravity of 24.9. Said base price to be modified by the differential in force at the time for oil or higher or lower gravity. Provided, however, that the Lessee shall pay to the owner the sum of $3.00 per acre each month during the period of such suspension for the acreage contained in said demised premises, to-wit: 528.83, less 25 acres for each well then completed, or in the course of drilling and in which drilling operations are not suspended. It being understood, however, that said payment shall be reduced by the amount of royalty which shall become due and payable to the Owner during each respective month of such suspension, from the oil or gas produced from said demised lands.

Exhibit No. 21—(Continued)

(1) Allowance of Additional Time for Completion of Wells.

There shall be added to the time within which any well is required to be completed under the provisions of this lease the amount of time lost by reason of any and all excusable delays in drilling such well under paragraph (G) hereof, and the amount of the additional time required to complete such well by reason of accident or injury thereto, or in overcoming any unexpected, unforeseen or unusual difficulties in drilling, and also the amount of time during which drilling is suspended on any well under the provisions of paragraph (H) of this lease, and also in the event of the drilling of a new well in lieu of an abandoned well, the time consumed in drilling the abandoned well plus thirty days allowed for movement of rig for the commencement of a new well, shall likewise be added to the time allowed for the completion of such well.

VI.

Pumping Obligations:

Lessee shall with all proper skill and diligence and in accordance with the custom existing among skillful operators, pump and otherwise operate to their full capacity all wells drilled by it hereunder as long as the same shall continue to produce oil in commercially paying quantities. Provided, however, that the failure of the Lessee to pump or otherwise operate any well or wells shall be excused

Exhibit No. 21—(Continued)

during such time or times as the prevailing market price for such oil in Los Angeles County is ninety (90) cents per barrel or less for oil of the gravity of 24.9. Provided, further, that the obligations of Lessee to pump or otherwise operate any producing well which is an offset to a well or wells on adjoining property shall be suspended only in the event and during the time that said adjoining well or wells are not pumped or otherwise operated for the production of oil.

VII.

Lessee's Obligations Regarding Gas:

If the Lessee shall encounter a flow of oil or gas in any well subsequent to the first producing well sufficient to pay to either pump or allow the same to flow in quantities sufficient to pay to save or otherwise secure, it may, provided said gas can be disposed of or used on the leased lands. So long as said gas well or wells are used for that purpose they shall constitute completed wells in part performance of the Lessee's drilling obligations, and the Lessee may, at any time and from time to time, drill any of said gas wells deeper with the view of striking oil therein, by the Lessee shall at all times use due diligence so as not to permit undue waste of natural gas developed hereunder.

VIII.

Rental and Royalties:

The Lessee shall turn over to the Owner and the

Exhibit No. 21—(Continued)

Owner shall have, receive and accept as rental and royalty for said leased lands, free of cost (excepting as elsewhere in this section provided) the equal one-sixth (1/6th) part of all the oil or other hydrocarbon substances (other than gas or gasoline, specific provision of which is made elsewhere in this section) produced and saved from said leased lands by the Lessee. The Owner shall have the option to take her royalty in kind, and if she so elects, the same shall be delivered as produced and saved into tanks or other containers upon said leased lands by the Lessee for that purpose, and such royalty oil may be stored without charge in such tanks or containers for a period of not to exceed thirty days, but at said Owner's sole risk. The Lessee shall be under no obligation to furnish or provide storage for the royalty oil for any time or at all longer or other than as hereinabove provided for said period of free storage; but if any royalty oil of the Owner shall remain in the storage tanks of said Lessee after the expiration of said term of free storage, the Owner shall pay to the Lessee storage thereon at the rate of one cent (1c) per barrel each month of said excess time. Nevertheless, after the expiration of said term of free storage, the Owner shall, on the written demand of the Lessee and within ten (10) days after such demand, receive and remove from the Lessee's storage royalty oil (or the commingled equivalent thereof) then therein, and which shall have been in storage longer than the period for such free storage; and in the event of the failure

Exhibit No. 21—(Continued)

or refusal of the Owner to receive and remove any royalty oil so required to be removed, as aforesaid, within said ten (10) days, then the Lessee shall have the right either to sell or to purchase said royalty oil affected by such demand, at the market price then current in the vicinity of the leased lands. The Lessee shall in such case pay the proceeds of the royalty oil so sold to the Owner on or before the 30th day of the calendar month next succeeding that in which it shall have been so sold or purchased.

The Owner may construct, operate and maintain upon the leased lands storage tanks, reservoirs, well houses and pipe lines or other means of conveyances for the transportation of her royalty products from said lands, provided, however, that the same shall be so constructed, operated and maintained as to interfere as little as practicable with the operations of the Lessee.

At the Owner's option the Lessee will purchase said royalty oil from the Owner and shall pay the Owner therefor the market price for oil of like grade and gravity at the wells of production in the general vicinity, and if there be no such price, then the price to be paid shall be fixed by mutual agreement, and if the parties cannot agree, then the Owner shall take her royalty in kind. From time to time whenever the Owner exercises her option with reference to the delivery of her royalty in kind, or to receiving payment therefor from the Lessee, as above provided, the Owner shall give to

Exhibit No. 21—(Continued)

the Lessee in either case ninety (90) days' written notice of her exercises of such option. In the event that the Lessee shall treat or cause to be treated its share of the oil produced from said premises for the purpose of cleaning the same or separating foreign matter therefrom, it will, if requested so to do by the Owner, likewise treat the Owner's royalty oil, and in that event the Owner shall pay the actual cost to the Lessee of treating said royalty oil.

The Lessee shall also pay to the Owner one-sixth (1/6th) of all sums received from any and all gas produced upon and from said leased lands and marketed or sold by the Lessee.

In the event that the Lessee shall not sell said gas upon the leased lands the Owner may elect from time to time to take her royalty gas, to-wit, one-sixth (1/6th) thereof, in kind at the well or from any transportation line of the leased lands. The Owner shall have the right at her own cost and risk, in the event there is gas produced on the leased lands in excess of the needs of Lessee in carrying on its operations hereunder to take from a point or points in the leased lands reasonably designated by the Lessee, and to use, free of charge, such excess gas as she may require for domestic use on the leased lands or for use at any pumping plant installed upon the leased lands; provided that if the Lessee shall extract or cause to be extracted gasoline or other products from the gas produced from said premises, then the gas taken by the

Exhibit No. 21—(Continued)

Owner shall be dry or treated gas, and shall be charged against royalty on gas produced and saved.

In the event that the Lessee shall either itself or by contract make upon the leased lands gasoline from its share of the gas, oil or other hydrocarbon substances produced from the leased lands then the Owner shall have the right to have her royalty products treated in like manner and to receive one-sixth of the market value of such gasoline at the place of production less one-sixth of the total cost of manufacturing the same.

The Lessee shall not be required to yield royalty on any oil, gas, or other hydrocarbon substances produced by it from the demised lands and used by it for fuel, mechanical and domestic purposes and uses necessarily incident to its operation on the leased lands under this lease. All royalty products which shall be sold to or by the Lessee under the terms hereof shall be paid for by it to the Owner on or before the 30th day of the calendar month next succeeding that in which delivery of the royalty products shall have been made by it, and all royalty oil paid in kind shall be delivered to the Owner from time to time as the same is produced on said leased lands and stored and handled herein provided.

In consideration of the execution of this lease the Lessee covenants and agrees further to pay to the Owner as an additional rent or royalty, an additional one-sixth (1/6th) part of all oil produced

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and saved from said leased premises by the Lessee until the value of such additional royalty paid to and received by the Owner shall equal the total sum of $661,037.50 then to cease and terminate.

The Lessee shall purchase said additional royalty from the Owner and shall pay the Owner therefor the market value thereof at the place of production.

IX.

Logs, Measurements and Accounts:

Lessee shall keep a log and record of each well drilled on said leased lands and shall, within a reasonable time after written notice, deliver to the Owner a copy of any and every of said logs requested. Lessee shall also maintain continuously on the leased lands such gauges and devices as may be necessary for measuring all oil produced hereunder and all gas saved, and shall forthwith make and keep a record showing in detail the production of all oil produced and saved and gas marketed or transported from said leased lands. The Owner shall have the right at all reasonable times, but only in the presence of a representative of the Lessee, and in a reasonable manner, to test the correctness of such gauges and devices, and may examine and take copies of all accounts and records during business hours. Lessee shall furthermore furnish to the Owner, between the first and tenth days of each calendar month, a statement in writing of the amount of oil produced and saved from said leased

Exhibit No. 21—(Continued)

lands and the quantities of gas marketed and transported therefrom, if any, and the price received for any royalty product sold during the next preceding calendar month. The Owner shall at all times have the right to enter into and upon said lands and inspect any and all operations of Lessee upon the leased lands.

X.

Taxes:

The Owner shall, during the term of this lease, pay all taxes upon the improvements, trees and growing crops owned by her on said demised premises and upon all personal property owned by her and which may be charged against said demised premises.

The Owner shall also pay, during the term of this lease, the amount of all taxes upon said demised premises computed upon the assessed value thereof for purposes of county taxation for the fiscal year 1923-1924, and the Lessee shall pay all taxes computed upon any increase in the assessed value of said demised premises over and above the assessed value thereof for the fiscal year 1923-1924. In the event that the mineral interests are separately assessed from the agricultural or other interests the separate assessments shall be added together for the purpose of determining the total assessed value of said lands.

Each party shall pay all taxes levied upon her or

Exhibit No. 21—(Continued)

its interest in said demised premises and if either party shall pay any taxes agreed to be paid or assumed by the other party hereunder, then the party paying the same shall render a statement to the other showing the total tax and the amount thereof properly chargeable to such other party and such other party shall make payment of the amount due within thirty (30) days after presentation of such statement.

In the event that the Lessee exercises the right in clause XIII hereof entitled "Right of Lessee to Quitclaim," a proper adjustment of taxes shall be made and the Lessee shall not be called upon to pay any taxes upon the property quitclaimed or surrendered back to Owner.

In the event that a production or similar tax be levied upon the production of oil, gas or other hydrocarbon substances from or upon said demised premises, then said tax shall be borne one-sixth (1/6th) by the Owner and five-sixths (5/6ths) by the Lessee.

The Lessee shall pay all taxes upon the buildings, rigs, tanks, tools and other personal property and improvements and structures placed upon said demised premises by said Lessee, including taxes upon the oil stored thereon belonging to the Lessee.

The Lessee shall also pay all taxes, charges and assessments imposed by the State of California or any department of the government thereof or any governmental authority under any law or regula-

Exhibit No. 21—(Continued)

tion for the protection of oil or gas against waste by infiltration of water or otherwise, or in connection with governmental control or regulation of oil and gas resources and operations.

The above obligation to pay the excess taxes by the Lessee shall be confined to such lands as the Lessee may have in its possession. This obligation to pay taxes shall not apply to income taxes, inheritance taxes, or any other taxes except the taxes that are levied by the public authorities of the state and county. Or, if the leased premises should hereafter be included in any municipality, then it shall include municipal taxes as may be levied by said municipality.

XI. (A)

It is mutually covenanted and agreed that during the twenty-year drilling term of this lease no well for oil or gas shall be drilled either on the premises hereby leased or on premises adjacent thereto now owned by the Owner and within three hundred (300) feet of the common boundary line between said leased premises and adjoining the premises of the Owner; and in the event that the Owner conveys or leases any of said adjoining premises said conveyance or lease shall be made subject to this covenant.

This covenant shall not apply to any portion of said leased premises which may be quitclaimed or released from this lease or to the premises of the Owner adjoining thereto.

Exhibit No. 21—(Continued)

XI.

Lessee's Compliance With Special Laws:

Said Lessee hereby convenants that it shall and will use all customary skill and diligence, in a good and workmanlike manner, to shut off any water which may enter any abandoned wells which may be drilled by it on said premises, and will also use every effort to shut off any water in any well which may be drilled by it on said leased lands, and make due and proper effort, by the customary methods, to prevent water from drowning said oil territory if any be discovered by the operations hereunder, or any part thereof. And said Lessee will also employ all reasonable or customary means for draining off any salt or other water produced upon said property by its drilling operations hereunder, in any excess which may injure the agricultural value of said land.

It is further covenanted and agreed that Lessee will, at all times and at its own expense, protect and indemnify the Owner against any and all claims for damages, costs or expenses incident to any claim or claims that may be made or asserted by reason of the operations of the Lessee hereunder, under the acts of the legislature of the state of California, known as "Workmen's Compensation, Insurance and Safety Act," or any other acts kindred or similar thereto, or any amendment thereof, to the end that the Owner shall at all times

Exhibit No. 21—(Continued)

be protected and indemnified against claims of employees of said Lessee for damages for personal injuries to them while engaged in the service of the said Lessee in its operations hereunder.

Lessee shall at all time post and keep posted such notice or notices in such conspicuous place or places as the Owner may select on said premises where any work or labor is being done and performed or material used, notifying all persons that the Owner will not be responsible for any work, labor, alteration, repair, materials or construction upon said premises, and any other notices required or permitted by the laws of California, as may be signed by the Owner and delivered by her to the said Lessee for posting as aforesaid.

XII.

Liens and Litigation:

The Lessee shall not suffer or permit any laborer's or materialmen's liens, or liens of like nature, to arise or exist upon or against the leased lands or any part thereof by reason of its operations under this lease or anything that may be placed on said lands by it, and shall hold the Owner harmless against any and all such liens. In like manner the Owner shall be solely chargeable with and liable for materials and labor for her horticultural, agricultural and other enterprises permitted by this lease, and shall likewise not suffer or permit any lien to arise or exist upon or against

Exhibit No. 21—(Continued)

said leased lands or any part thereof, and shall hold said Lessee harmless against any and all such liens. The party responsible for such lien shall have the right to contest any such lien, and in the event of such contest shall not be deemed in default during the continuance of the litigation, but shall promptly pay any judgments against them or either of them or the land, in said action; or in case of appeal shall furnish an appeal bond or otherwise cause the stay of execution pending appeal, and after decision of the appeal shall promptly clear the leased lands of any adverse judgment. If either party shall be in default regarding any such lien or judgment the party not in default may, at such party's option, after five days' written notice to the party in default, elect to pay off the same and clear the leased lands therefrom, and in that event the defaulting party shall immediately reimburse the other for all sums so expended.

Each of the parties shall give the other written notice of any litigation affecting the leased lands as soon as such party shall have knowledge thereof.

XIII.

Right of Lessee to Quitclaim:

At any time after the date of this lease Lessee may at its option execute and deliver to the Owner a quitclaim deed or deeds duly acknowledged so as to be ready for recordation, quitclaiming all or

Exhibit No. 21—(Continued)

any portion of the leased lands as Lessee may select, and thereupon the lands so quitclaimed shall forthwith be released from the effect of this indenture, and none of the obligations of the parties hereto shall thereafter apply to said quitclaimed lands, except as follows, viz:

(1) Lessee may reserve and maintain across, over and along the lands so quitclaimed, any and all rights and easements for pipelines, roads, poles and wires across the parcels surrendered reasonably required for use in connection with any well or wells retained by Lessee, in which event it shall be liable for the taxes on said improvements so long as it retains them.

(2) The Owner shall not drill or excavate for oil, gas or other hydrocarbons upon said quitclaimed lands at any place nearer than three hundred (300) feet to any well which may be retained by Lessee while such well so retained shall produce oil or gas in commercially paying quantities.

(3) The rights and obligations specified in section XV hereof entitled, "Lessee's Right to Remove Equipment," etc.

If and when all the leased lands shall be so quitclaimed Lessee shall be wholly released from all obligations thereafter accruing under this lease.

Exhibit No. 21—(Continued)

XIV.

Forfeiture:

In case Lessee shall be in default in the performance of any covenant or agreement by it to be done or performed under this lease, then this lease shall, after thirty (30) days' written notice of the existence of the default, given by the Owner to the Lessee and upon failure of the Lessee to correct within said thirty (30) days, or to commence within said thirty (30) days, in good faith and continue with reasonable diligence until the default be corrected, appropriate work and effort for the correcting of its default, terminate and become null and void at the option of the Owner; and the Owner in such event may take possession of said leased lands free and clear of this lease, and Lessee shall promptly vacate and surrender said leased lands to the Owner and execute and deliver to Owner a quitclaim deed releasing all its right, title and interest in said leased lands, saving only the right to remove therefrom its property as hereinafter specified. But in the event of any such forfeiture Lessee shall have the right (subject to the terms of this lease as to royalties and other matters) to retain any well or wells theretofore completed or on which work is being done in good faith at the time of such forfetiture so long as any such well or wells shall continue to produce oil and/or gas in the quantities specified as commercially paying in section IV hereof entitled "Twenty

Exhibit No. 21—(Continued)

Year Term and Rights of Lessee Thereafter:" together with a parcel of land two hundred (200) feet square with the well in the center thereof around each such well; together with such rights of access, rights-of-way to and from such well or wells for repair, maintenance and operations, and all necesary roads, pipelines, telephone, power and light lines as may be necessary in the operations of said wells, and/or in producing, saving, collection, and/or transporting the oil, gas and/or hydrocarbon substances produced from such well or wells; and further provided, that the Owner, after reentering, shall not drill or excavate for oil, gas or other hydrocarbon substances at any place on the leased lands nearer than three hundred (300) feet of any well so retained by Lessee while such well shall produce oil or gas in the quantities aforesaid.

XV.

Lessee's Right to Remove Equipment and Duty to Clear Premises:

All improvements, tools and equipment placed upon said leased premises by the Lessee shall be and remain the property of the Lessee and within ninety days after this lease shall have terminated as to all or any particular parcel of the leased lands, Lessee shall remove therefrom, or from the part upon which its rights shall have terminated, except as provided in clause III, all of the property of the Lessee which may be situated thereon.

Exhibit No. 21—(Continued)

Not later than the time that said Lessee removes any portion of its property from said leased land and immediately upon abandonment by it of any well or other works, Lessee shall relevel the surface of the land, that is to say, shall fill up pumps and other excavations, ditches, take down derricks, remove concrete and other supports and other obstacles to agriculture and generally place the leased lands so as to conform as near as practicable to the natural contour of the ground.

XVI.

Notice:

Any notice relative to this lease from the Owner to Lessee shall be deemed sufficiently delivered if a written copy thereof be delivered addressed to Lessee at ..... or to any bank or trust company in the county of Los Angeles as may be hereafter designated in written notice by Lessee to Owner. Any notice relative of this Lease from Lessee to the Owner shall be deemed sufficiently delivered if a written copy thereof directed to the Owner is delivered either to the Owner personally, or to The Farmers and Merchants National Bank, of Los Angeles, California, as may be from time to time designated by the Owner in writing.

XVII.

Condition of Title:

It is understood that the Owner has delivered

Exhibit No. 21—(Continued)

to the Lessee an unlimited guarantee of title made the Title Insurance and Trust Company, and that the Owner makes no express or implied covenant, warranty or representation as to the Owner's right to make this lease, the condition of the title or quiet enjoyment thereof by Lessee, all of such covenants, warranties and representations, being expressly waived.

XVIII.

Miscellaneous:

All of the provisions, covenants, agreements and stipulations contained in this lease by which either of the parties hereto is bound shall in like manner be binding upon the heirs, executors, administrators, successors and assigns of the parties so bound, and those which are for the benefit of the heirs, executors, administrators, successors and assigns of the parties so benefitted, and all such provisions, covenants, agreements and stipulations shall run with the land.

In Witness Whereof, the parties hereto have hereunto set their hands and seals the day and year first above written.

s/ MARIA DE LOS REYES D. de FRANCIS

By /s/ H. W. O'MELVENY,
Her Attorney in Fact.

Exhibit No. 21—(Continued)

UNION OIL COMPANY OF CALIFORNIA,

By /s/ E. W. CLARK,
Its Executive Vice-President.

By /s/ JOHN McPEAK,
Its Secretary.

SHELL COMPANY OF CALIFORNIA,

By /s/ G. LEGH-JONES,
Its President.

By /s/ R. A. LEWIN,
Its Secretary.

EXHIBIT 22

AGREEMENT

Whereas a certain indenture of lease dated the 31st day of August, 1923 was entered into between Marie de los Reyes D. de Francis, as owner and lessor, and Union Oil Company of California and Shell Company of California, as lessees, which indenture of lease was duly recorded on the 24th day of May, 1924, in Book 3138, Page 290, of the Official Records of Los Angeles County, said lease having been subsequently amended so as to correct the description of certain lands reserved therefrom, by agreement recorded on the 6th day of November, 1925, in Book 5175, Page 308, of said

Exhibit 22—(Continued)

Official Records of Los Angeles County. Said lease as so amended is hereinafter referred to as the "original lease." Reference is hereby made to said original lease and the record thereof for all purposes, and without limiting said general purposes, said reference includes descriptions of land leased and reserved and all covenants, agreements and obligations of the respective parties and all conditions, limitations, restrictions and reservations as in said lease expressed; and

Whereas the Dominguez Estate Company has succeeded to the title and ownership of said land in said lease described by virtue of a deed of conveyance executed by Francis Land Company, the successor in interest of Maria de los Reyes D. de Francis, to the Dominguez Estate Company; which said deed was duly recorded on the 16th day of October, 1928, in Book 7286, Page 217, of said Official Records of Los Angeles County; and

Whereas Burnham Exploration Company has succeeded to the title and ownership of an undivided one-fourth (¼) of the undivided one-half (½) interest of the Union Oil Company of California in, to and under said lease, by virtue of a conveyance thereof from Union Oil Company of California to said Burnham Exploration Company, which instrument of conveyance was duly recorded on the 10th day of December, 1924, in Book 4241, Page 186, of the Official Records of Los Angeles County; and

Exhibit 22—(Continued)

Whereas the Union Oil Company of California and Burnham Exploration Company and Shell Oil Company, the lessees under said lease, have requested from the Dominguez Estate Company certain modifications in the terms of said original lease, which the said Dominguez Estate Company is willing to grant for the time, in the manner and subject to the conditions and obligations next hereinafter set forth;

Now, Therefore, This Agreement made and entered into this ..... day of August, 1936, by and between Dominguez Estate Company, as lessor, and Union Oil Company of California, Shell Oil Company and Burnham Exploration Company, as lessees,

Witnesseth:

That for and in consideration of Ten Dollars ($10.00) to the Dominguez Estate Company in hand paid, receipt whereof is hereby acknowledged, and other valuable considerations to it moving, the parties agree as follows:

That Section IV of said lease, entitled "Twenty Year Term and Rights of Lessees Thereafter" which reads in part as follows, to-wit:

> "The term of this lease shall be twenty years from and after the date hereof and for so long thereafter (but not exceeding twenty additional years) as oil, gas or other hydrocarbon substances shall be produced and saved from

Exhibit 22—(Continued)

said leased lands in commercially paying quantities."

be modified, changed and an extension effected so that hereafter the same shall be as follows:

The term of said original lease is hereby extended so that the same shall continue to and terminate at 12 o'clock midnight of August 30, 1963.

At the expiration of said forty-year drilling period, to-wit, August 30, 1963, all undrilled lands shall be free from the terms and conditions of said indenture: provided that the Lessees shall have full right to retain, operate, redrill, clean out, deepen, repair, pump and work all oil wells or gas wells or other wells or works existing upon said leased lands at the time of the expiration of said drilling period, so long thereafter (but terminating August 30th, 1973 at midnight) as oil, gas or other hydrocarbon substances shall be produced and saved from said wells or works respectively in commercially paying quantities, upon the rent and royalty and subject to the terms and conditions in said lease specified; and the Lessees shall have and retain with each well, so long as it shall be so retained and operated, a parcel of land around each well of such size, not exceeding five (5) acres, as it may reasonably deem necessary, and so long as any well or wells shall be so retained

and operated the Lessees shall have and retain all reasonable rights-of-way for ingress and egress to and from said well or wells and full rights-of-way for its water lines, gas lines, oil lines and other pipe lines, and telegraph, light, power and telephone lines, and all other means of access, and all works and improvements useful for the operation of each of said wells and the production, storing and/or transporting of the product thereof upon the leased lands.

That subdivision (B) entitled "Fruther Drilling Requirements," subdivision (D) entitled "Additional Wells," and subdivision (E) entitled "Offset Wells" of section Numbered V, entitled "Drilling Operations of Lessee" of said lease be and the same are hereby amended to read as follows:

(B) The lessees covenant and agree that they will, beginning August 31, 1936, maintain and keep diligently and continuously working (except for excusable delays specified in clause (G) hereof) one string of tools in the drilling or deepening of wells, into the formation below the Pliocene, allowing Thirty (30) days between the completion and testing of a well and the commencement of another well.

The lessees further expressly covenant and agree that in the event that any well or wells which shall produce oil in commercially paying quantities from formations below the Pliocene, are drilled on what are known as the Wright and Callendar, I. W. Hell-

Exhibit 22—(Continued)

man and Childs lands, or any of them, lying immediately to the north of the lands included in said original lease, or on any other land adjoining said demised property, then the lessees herein will likewise drill such well or wells or deepen such existing well or wells on the lands included in the original lease into the same producing zone or zones as the well or wells on said adjoining lands, as may be required to fairly protect said demised lands from drainage, and shall operate such number of strings of tools as may be necessary at any time to comply with this provision.

(D) During the aforesaid 40-year drilling period the Lessee may drill as many additional wells as it chooses and may redrill, deepen, repair and clean any and all wells drilled on said property.

(E) In case at any time after the date of this lease, and during the 40-year drilling period, but no longer, any well shall have been drilled upon lands in the vicinty of the leased premises and within three hundred (300) feet of any boundary line of said leased lands, and shall, when put on the pump or permitted to flow, have produced at least one hundred (100) barrels of oil per day during a thirty-day test, then the Lessee shall, within ninety (90) days after the expiration of said test, commence drilling operations for an offset well upon the leased lands (unless a well has been already drilled on the leased lands which is so located as to amount to an offset well as herein provided). Any

Exhibit 22—(Continued)

such offset well shall be located within three hundred (300) feet of the boundary line of the leased lands and within three hundred feet (300) of a line drawn at right angles from the well to be offset to the boundary line of said leased lands. said offsetting requirements are, however, subject to the following conditions, namely:

First: One well, if otherwise meeting the conditions of this subsection head "Offset Wells", may constitute an offset to two or more wells.

Second: Any such offset well shall count upon the number of wells specified to satisfy the drilling requirements set forth in subsection (B) hereof entitled "Requirements after Discovery."

Third: The Lessee shall not be required to drill a well to offset any well drilled on adjoining lands at the time owned by the Owner.

Any offset well which the Lessee is required to commence, as aforesaid, shall be drilled and completed with reasonable diligence in the same manner as is required for other wells as set forth in this indenture.

Subdivisions (C), (F), (G), (H) and (I) of said Section V shall continue in full force and effect.

That Section XIV entitled "Forfeiture" be, and the same is, hereby amended to read as follows:

In case Lessees shall be in default in the performance of any covenant or agreement by them to be

Exhibit 22—(Continued)

done or performed under this lease, then this lease shall, after thirty 30 days' written notice of the existence of the default given by the Owner to the Lessees and upon failure of the Lessees to correct within said thirty (30) days, or to commence within said thirty (30) days, in good faith and continue with reasonable diligence until the default be corrected, appropriate work and efforts for the correcting of their default, terminate and become null and void at the option of the Owner, except as to the reserve rights of the Lessees as hereinafter specified; and the Owner in such event may take possession of said leased lands free and clear of this lease, subject to the rights of the Lessees as hereinafter specified, and Lessees shall promptly vacate and surrender said leased lands to the Owner and execute and deliver to Owner a quitclaim deed releasing all their rights, title and interest in said leased lands, reserving, however, to the Lessees the rights hereinafter specified and also including the right to remove therefrom their property as specified in Section XV hereof. But in the event of any such forfeiture Lessees shall have the right (subject to the terms of this lease as to royalties and other matters) to retain any well or wells theretofore completed or on which work is being done in good faith at the time of such forfeiture, with full right to retain, operate, redrill, clean out, deepen, repair, pump and work the same, so long as any such well or wells shall continue to produce oil and/or gas in the quantities specified as com-

Exhibit 22—(Continued)

mercially paying in Section IV hereof entitled "Forty Year Drilling Term and Rights of Lessees Thereafter"; together with a parcel of land two hundred (200) feet square with the well in the center thereof around each such well; together with such rights of access, rights-of-way to and from such well or wells for repair, maintenance and operations, and all necessary roads, pipe lines, telephone, power and light lines as may be necessary in the operation of said wells, and/or in producting, saving, collecting, and/or transporting the oil, gas and/or hydrocarbon substances produced from such well or wells; and further provided that the Owner, after reentering, shall not drill or excavate for oil, gas or other hydrocarbon substances at any place on the leased lands nearer than three hundred (300) feet of any well so retained by Lessees while such well shall produce oil or gas in the quantites aforesaid.

Provided, however, should lessees become in default on account of non-compliance with the provisions of Subdivision B of Section V entitled "Drilling Operations of Lessees" as herein contained, no forfeiture may be declared or had of lessees' drilling, producing and other rights under and as provided in said lease (as hereby modified) in and with respect to the Pliocene formations and formations above the same. In the event a forfeiture be declared and effected by reason of the noncompliance by the lessees with the provisions of Subdivision B. of Section V, the same shall apply only to formations below the Pliocene, and the

Exhibit 22—(Continued)

lessor herein, its agents and/or lessees, shall have the right to enter upon said demised premises for the purpose of drilling such number of wells as it may desire into the formations below the Pliocene and to produce oil and gas and other hydrocarbon substances therefrom, with all necesary rights of way, and rights to use the surface of the premises for any and all purposes in connection with the drilling, operation and maintenance of such wells and the production, storage, transportation and treatment of the oil, gas and other hydrocarbon substances which may be produced therefrom. Provided, however, that said rights shall be so exercised by the lessor, its agents and lessees, as not to interfere with the exercise by the lessees of the rights reserved and retained by them under said leases hereby modified, and provided further that the lessor may not drill any well at any place on the leased premises nearer than 300 feet of any retained well of the lessees which may be drilled and producing from the formations below the Pliocene while such retained well shall produce oil and gas in commercially paying quantities.

That section VIII, entitled "Rental and Royalties" be amended by adding thereto and making a part thereof, the following:

If for any calendar year beginning with the year 1937, the royalties accruing to the lessor hereunder shall have a value of less than the sum represented by the number of acres of land then retained by the Lessees hereunder multiplied by one hundred

Exhibit 22—(Continued)

twenty Dollars ($120.00), then the Lessees shall, within sixty (60) days after the end of such calendar year pay to the Lessor as additional royalty such sum as, when added to the value of the royalties for the preceding calendar year, shall equal the sum so arrived at.

Furthermore, that that portion of said Section VIII which reads as follows:

> "At the Owner's option the Lessee will purchase said royalty oil from the Owner and shall pay the Owner therefor the market price for oil of like grade and gravity at the wells of production in the general vicinity, and if there be no such price, then the price to be paid shall be fixed by mutual agreement, and if the parties cannot agree, then the Owner shall take her royalty in kind. From time to time, whenever the Owner exercises her option with reference to the delivery of her royalty in kind, or to receiving payment therefor from the Lessee, as above provided, the Owner shall give to the Lessee in either case ninety (90) days' written notice of her exercise of such option."

be amended or changed to read as follows:

> "At the Owner's option the Lessee will purchase said royalty oil from the Owner and shall pay the Owner therefor the market price for oil of like grade and gravity at the wells of production in the Los Angeles Basin, and if

Exhibit 22—(Continued)

there be no such price, then the price to be paid shall be fixed by mutual agreement, and if the parties cannot agree, then the Owner shall take her royalty in kind. From time to time, whenever the Owner exercises her option with reference to the delivery of her royalty in kind, or to receiving payment therefor from the Lessee, as above provided, the Owner shall give to the Lessee in either case ninety (90) days' written notice of her exercise of such option."

It is understood and agreed that from and after the execution of this agreement no assignment or transfer may be made by any of the Lessees of any fractional part of its interests in said lease or in the premises covered thereby, nor may any sublease of any part of said demised premises be made without the Lessees first obtaining the consent of Lessor thereto in writing. Any such purported assignment or transfer or sublease so made in violation hereof shall be void and of no force or effect. Subject to the limitations hereinabove contained in this paragraph, this agreement shall be binding upon and inure to the benefit of the respective parties and their successors and assigns.

All other terms, provisions and conditions in said original lease contained are continued to the same effect as if this agreement of modification had not been entered into, and without limiting the generality of the above, all provisions for royalty, taxes,

Exhibit 22—(Continued)

default and forfeiture apply to this modification of said lease as the same are set forth in said original lease.

In Witness Whereof the parties hereto have executed this agreement this 25 day of August, 1936.

DOMINGUEZ ESTATE COMPANY,

By H. H. COTTON,
President,

WM. S. MARTIN,
Secretary.

UNION OIL COMPANY OF CALIFORNIA,

By W. W. ORCUTT,
President,

W. R. EDWARDS,
Secretary.

SHELL OIL COMPANY,

By S. RELITHER,
President,

B. O. KOONTZ,
Assistant Secretary.

RESPONDENT'S EXHIBIT AA

Prices Used in Estimation of Royalty Dollars
Dominguez Estate Co. Leases

	Price Per Bbl.
Reyes	$1.23
De Francis	1.10
Manuel	1.07
Carpenter	1.10
Selbar	1.02
United Supply	.92
Standard-Getty	.66
Royal Petroleum	.63
C.C.M.O.	.65
Holly Development	.42
Hillden-Caminol	1.07
Wood-Callahan	.65
Pettijohn-Jergins	.65

Carson Estate Company Leases

Carpenter	$1.10*
Hillden-Caminol	1.07
Union Carson	1.21
Standard Carson	.71

*Less $150.00 yr. Rental to Childs Estate.

[Endorsed]: Filed Dec. 20, 1946.

RESPONDENT'S EXHIBIT BB

[Letterhead]

DOMINGUEZ ESTATE COMPANY

March 25, 1941

To the Stockholders of
Dominguez Estate Company:

In presenting herewith the Financial Report for the year 1940 you will observe that we have had a considerable reduction in income from that received in 1939. This reduction, as usual, has been caused by a decrease in the amount of oil royalties due to oil pro-ration reductions and price changes which have been called to your previous attention.

While it is true the drilling of new wells on the Reyes Lease has continued during the year, resulting in increased potentialities, it is still undetermined whether the zone below the eighth calendar zone in the field will be productive enough to warrant development. Up to date nothing in the field has shown anything worth while below the 9000 foot level, although wells have been drilled on adjoining property to a depth of 12,000 feet and on our own property below 10,000 feet, but no appreciable production was recovered. However, the leasing company still believes that there are some productive zones below those now known and producing.

Since the first of this year there has been some increase in the pro-ration allowances on the lease which, if continued, would result in some increase in income over the previous year, but it is prob-

EXHIBIT BB (Continued)

lematical how long these increases will continue and whether we shall be able to even maintain our production schedule of last year. There are also changes to lower values in the price structure in the last few weeks, the Standard having posted a cut of 10c a barrel on light gravity oils in the northern fields, but it has not yet affected the prices in the Los Angeles basin. We had some hopes that a bonus for our type of crude would be restored during the year but this has not yet developed; however, any chances we may have to sell this product at a better price than posted price will be taken advantage of immediately, as we are now operating under a thirty day schedule with the Union Oil Company in contrast to our previous six months period of election as to the sale of oil.

Last year I called your attention to Federal Bill known as the "Cole" Bill, which provided for federal regulation of oil production and which, if it became a law, would seriously affect our production. This Bill was defeated in Congress, but unhappily it is up again and I understand that it has the backing of both the Secretary of the Interior and the President, although it is far from being enacted into law as yet. All the California companies are making a decided effort to defeat the Bill before it is even brought onto the floor of Congress.

During the year we were successful in leasing a large portion of the west field of Torrance and ex-

EXHIBIT BB (Continued)

pect to have during this year some development which will give us additional production in this field. In addition the General Petroleum Lease, West Field, was cancelled and new operators have taken it over, who agree to operate and put into production all of the present wells in that lease and also to drill six new wells. This should result in an additional revenue not heretofore enjoyed by the company in this district. While there have been some new developments both to the north and west of the Hill field, there is nothing yet that would tend to show our productive acreage can be materially enlarged on Dominguez Hill.

During the year an attempt was made to develop oil production north of Torrance and adjoining Western Avenue, a district that had not previously been developed and where we had a large tract of land which the directors felt should be tested before sales of real estate were made. A well was drilled to 7172 feet; at 7130 feet the basement schist was encountered which showed that further development was useless. Very little showing was made in this well proving that the existence of oil or gas in production quantities in this district was not possible, and that the best policy would be to dispose of lands in this area for other purposes.

The Real Property tax situation, which I called to your attention in last year's letter, is one to which we are still devoting considerable time and energy and, while we were successful this year in

EXHIBIT BB (Continued)

reducing the assessed values $370,530.00, which resulted in savings of taxes of approximately $17,000.00, we still feel there is a chance for much larger and better adjustments on the unimproved acreage property.

During the year we have had little or no inquiry for land in our district for improvement or development but, with the coming of the Defense Program, we hope that something will develop in the near future which will allow us to dispose of some of our unproductive lands.

We have succeeded in making an arrangement with a builder and developer to start development on a 100 acre tract on Santa Fe and Garson Street, 20 acres of which will be immediately subdivided and developed, and reasonably priced homes built to sell at approximately $3000.00. This should result in some appreciation of values in this immediate district in addition to giving increased revenue to our wholly owned subsidiary, the Dominguez Water Corporation.

The County Board of Supervisors and the Government Flood Control Departments have finally placed in the budget an item of $1,900,000.00, which will be applicable in a large measure to the improvement and acquisition of lands in the Dominguez territory, and which at the same time would have a decided effect toward restoring to use some of our land, and clear up a situation that we have

EXHIBIT BB (Continued)

been fighting with for several years. This has not been finally completed, but we have every reason to believe that something will be done in connection with it during the coming year.

Our building rentals and rents are very satisfactory and, with very few exceptions, our properties are completely occupied at a very fair rate of return on the investment.

During the year it was necessary to replace the pumping equipment of our wholly owned subsidiary, Dominguez Water Corporation, as the State had condemned our steam plant on account of excessive age, and the cost of electric power had become excessive. We have made a new installation at a cost of approximately $80,000.00, which we believe will result in a saving of not less than $15,000.00 a year in our cost of power, thereby retiring the entire cost of installation within five years, and from then on give us a substantial profit instead of a loss in our operations. We believe that the stockholders will be very interested in seeing this installation as it is regarded as one of the finest in the country.

During the year our net profit was reduced from $761,835.02 to $582,222.21, a decrease of $179,612.81, of which $171,008.87 was occasioned by reduction in oil royalties. A comparison of the royalty oil production and royalty dollars received for the years 1939 and 1940 are as follows:

Exhibit BB—(Continued)

Year	Royalty Bbls.	Royalty Dollars
1939	589,244.09	$674,074.94
1940	520,448.66	542,476.78
Decrease of 1940 over 1939	68,795.43	$131,598.16
or a Net Reduction in Royalty Oil of		$131,598.16
and a Reduction in Gas and Gasoline Royalties for 1940		39,410.71
or a total Reduction in Royalties for 1940 of		$171,008.87

This difference is largely in the price structure occasioned by both a drop in price and the loss of our bonus sales, as you will see that while production was 68,795 barrels less our returns were $171,000.00 less.

There is a reduction of $16,537.81 in our real estate account, being the difference between additions amounting to $14,822.29 and depreciation for year amounting to $31,360.10 and, inasmuch as no appreciable sales were made this year, no profit to any extent was reflected. There was an increase in rentals amounting to $9,485.65 due largely to rents received from building erected at 5459-61 Wilshire Boulevard in the amount of $5,700.00; the balance of increase was from additional rentals in Dominguez Wilshire Building. Other income remained at approximately the same basis as in the past.

Notwithstanding the reduction in income, we paid during the year dividends in the sum of $755,928.00, and in doing so depleted our Earned Surplus in

Exhibit BB—(Continued)

the sum of $251,486.54. It still continues to be the policy of the directors to maintain the dividends at at the present rates as long as possible to do so, using our Earned Surplus to supplement any deficiency in the income, and to give to the stockholders all possible returns as long as we are able to do so and keep the company in a position of liquidity in line with good business principles. Unless something drastic happens to our situation in the oil production we believe we shall be able to do so for some years to come. However, with the unsettled conditions of world and national affairs, and the ever increasing tax rates, we can not predict very far into the future and can only work on a day to day basis to measure with conditions as they exist.

Respectfully submitted,
H. H. COTTON,
President.

March 24, 1941

H. H. Cotton, President
Dominguez Estate Company
Los Angeles, California

Dear Mr. Cotton:

I am handing you herewith Annual Report of the Dominguez Estate Company for the year 1940.

The Net Profit for the Year 1940 as recorded on the books amounted to	$582,222.21
as compared to the Year 1939, which amounted to	761,835.02
or a Decrease of income amounting to	$179,612.81

Exhibit BB—(Continued)

This Decrease of income is arrived at as follows:

Income		
Decrease in Royalties in Year 1940 over Year 1939	$171,008.87	
Increase in other income in Year 1940 over Year 1939	4,378.74	
or a Net Decrease of income amounting to		$166,630.13
Expenses		
Decrease of operating expenses for the Year 1940 over Year 1939 amounted to		12,738.15
or a Net Decrease of Operating Profit for the Year 1940 over Year 1939 of		$153,891.98
Capital Losses Sustained in Year 1940		
Cost of Drilling Dominguez Fee No. 1 Well—Abandoned —No Production	$ 32,343.68	
Cost of Stock of Engineering, Inc.—Written off — Worthless	10,000.00	
Total Capital Losses in Year 1940	$ 42,343.68	
Deduct		
Capital Loss in Year 1939—Kaspare Cohn Note	16,622.85	
Increase in Capital Losses in Year 1940 Over Year 1939		25,720.83
Making a Net Reduction in Income for the Year 1940 over 1939 of		$179,612.81

Dividends amounting to $72.00 per share, or $755,928.00, were paid in the year 1940, and depletion of Oil Leases amounting to $180,807.53 was used in computing the Federal Income Tax for the year, which amounted to $82,075.02.

Exhibit BB—(Continued)

Investments		
Bonds purchased during the Year amounted to		$ 43,486.95
Less Bonds which were sold during the year, and which cost	$ 13,574.45	
Liquidating Dividend on Municipal Bond Company's Bonds	1,800.00	15,374.45
Making an Increase in Bond Account		$ 28,112.50
Stocks Purchased during the Year amounted to		$ 42,249.75
Less		
Stocks which were sold during the Year $320,295.00, costing	$321,896.90	
Capital Dividends on Park Wilshire Stock	3,029.17	
Curtis Publishing Company Stock Reorganization	14,851.00	
Engineering, Inc. Stock—written off	10,000.00	349,777.07
Making a Decrease in Stock Account During Year 1940		$307,527.32
and a Total Decrease in the Investment Account during 1940		$279,414.82
which Subtracted from the Stock and Bond Investment Account as of January 1, 1940		2,303,492.35
Makes a Total of Stock and Bond Investments as of December 31, 1940		$2,024,077.53
Deducting Accrued Interest Purchased in Year 1939 and collected in 1940		44.44
Makes a Grand Total of Investments December 31, 1940		$2,024,033.09

Exhibit BB—(Continued)

Oil Development—Wilmington

The oil development on Block 19, Range 7, is reflected in the following figures:

Tangible Drillings Costs

	Casing	Derrick	Total
Well No. 1	$ 6,968.87	$2,826.10	$ 9,794.97
Well No. 2	5,165.69	2,072.97	7,238.66
Totals	$12,134.56	$4,899.07	$17,033.63
Field Equipment			7,454.63
Total Tangible Drilling Costs			$24,488.26
Intangible Drilling Costs, consisting of Labor, Material, etc. drilling wells			12,453.25
Total Costs			$36,941.51

Production from May 1937 to November 1940 inclusive amounted to 281,154.52 barrels, and 50% of this production, or 140,577.26 barrels, produced royalty of $91,771.94. Operating expenses amounted to $26,045.53, leaving a net royalty of $65,726.41. Deducting drilling costs of $36,941.51 from the net royalty of $65,726.41 leaves a balance of $28,784.90 over all costs for drilling and operating these wells for the period from May 1937 to November 1940 inclusive.

Had this venture been handled on a straight 1/6 royalty basis the result would have been as follows:

Total Production Barrels	281,154.52
1/6 Royalty Barrels	46,859.09
1/6 Royalty Dollars	30,590.65

The net amount received from operations for the

Exhibit BB—(Continued)

period May 1937 to November 1940 inclusive amounted to $28,784.90, which was $1,805.75 less than that which would have been received on a 1/6 royalty basis. However, the company has a 50% interest in well and field equipment costing $73,-883.02, which is fully paid for.

Respectfully submitted,

FRED DREW,
Assistant Secretary.

[Endorsed]: Filed Dec. 20, 1946.

RESPONDENT'S EXHIBIT CC

[Letterhead]

DOMINGUEZ ESTATE COMPANY

March 28, 1940

To the Stockholders of
Dominguez Estate Company:

In presenting herewith the Financial Report for the year 1939 you will observe a considerable reduction in our income from that of 1938. This reduction is caused principally because of decrease in oil royalties, due entirely to the oil proration regulations which were put into effect and which were called to your attention in my report of March 30, 1939. I advised you at that time that we could look for a falling off in royalties for some time to come and until the industry became more stabilized. In

Exhibit C—(Continued)

addition to this, there has been a cut in the price of crude oil posted by the Standard and Richfield Oil Companies. This cut, however, has not yet been recognized by the balance of the companies, but has resulted in a very unstable price structure in all gravities of crude oil. Further, we have not been able to maintain the previous bonuses received from the sale of our crude to independent operators. We believe this condition shows signs of clearing up and it may be possible in the near future that we will again be able to obtain a bonus over the posted price for our oil, but there are no indications that the immediate future holds any hopes for an appreciable increase in the proration production of the wells.

During the year a resolute endeavor was made by the Standard Oil Company and some of its affiliates to pass a state regulatory law on oil production, and it was only by the determined efforts of the Independents that this was defeated. Had this become a law our production would have been further materially reduced and, naturally, our income would have been reduced pro rata.

A Bill is now pending in Congress, commonly known as the "Cole" Bill, which provides for federal regulation of oil production and, should it become a law, will again seriously affect us. In Texas the large producing oil wells are only allowed from 25 to 30 barrels a day per well, even though these wells are capable of producing from 1000 to 5000

Exhibit CC—(Continued)

barrels per day. The same condition prevails in Oklahoma, although not to such a drastic extent. Therefore, if this Bill becomes a law, naturally all wells throughout the nation would be placed on an equal basis of production, and there is no telling what our situation would be.

In order to safeguard the interests of our company against the many regulations imposed upon us by different governmental agencies relating to oil production in these fields, we are obliged to devote a great deal of labor and attention to these matters, and we ask the stockholders for their united support and assistance in combating these elements which might eventually very seriously affect the income of all of the stockholders of the company.

As far as the potential production of the fields is concerned it has held up very evenly, and I believe that new reserves, not previously known that make for a long life and much greater potential production in the field, have been developed. Several new wells have been brought in on Dominguez Hill properties, some at depths not heretofore productive; however, in one of the wells drilled on the Hill, we again ran into an unproductive zone at 10,000 feet, showing that faults exist both north and south and east and west, and that it is unpredictable where the production lies until the property is drilled.

Exhibit CC—(Continued)

During the year the directors believed it advantageous to prove as much of the territory as possible, and agreed to drill a well, for experimental purposes, in the north Torrance field which, unfortunately, did not prove productive; although some slight showings were found, nothing was proved that would make your directors believe that any of this territory, west of Western Avenue and north of Torrance and adjoining the General Petroleum property on the east, is in a productive zone.

There have been some new developments to the north and west of the ranch that may prove some further production on the Hill, but this is very problematical at the present time. However, we will make every effort during the coming year to have this territory developed by any reputable companies that will agree to drill same.

We believe that efforts should be made to develop your property at the west end of the ranch, adjoining the city of Redondo, where small production of a lower gravity oil (at very low cost per barrel) has been successful over a twenty year period, and we are of the opinion that some development should be made on these lands.

Another problem on which we have been working, and one in which a great deal of progress has been made up to the present time, is the tax situation. We feel that considerably more effort will have to be expended, however, on this matter before ac-

Exhibit CC—(Continued)

complishing the desired results. A large portion of the land is not suitable for agricultural purposes, and these is no demand for it for any other purpose, either residential or manufacturing, yet in a majority of cases the assessor has assessed this land on a basis of industrial or semi-industrial use, thereby making our tax rate exorbitant and the cost of carrying same a constant drain and expense to the company, without any hope of recompense or return by sales at increased values. The demand for property of this kind, which is only suitable for heavy industries such as steel plants, oil refineries, chemical plants, etc. (a type virtually excluded from other districts), is very restricted, and the sales for many years past and, probably many more to come, will be in very small parcels, yet our taxes are figured on practically the same basis as though the land were in actual use. Our idea is to have the land tested for its oil production possibilities as fast as possible and, if it is not commercial oil property, to make every effort to dispose of it, thereby eliminating any further drain on the resources of the company.

During the past several years we have been working with the County Board of Supervisors and Government Flood Control Departments on the sale or disposition of Nigger Slough to the Gardena Valley Flood Control for flood control and park purposes. This property has been condemned by government authorities as unfit for human habita-

Exhibit CC—(Continued)

tion on account of flood conditions; therefore, it is absolutely unsuitable for any other purpose and can never be disposed of on account of its zoning, except for governmental use. This may take some time but, in the meantime (while we still retain title) we have ceased to pay any further taxes on this land because we can always redeem it on a basis much less than its current taxes and, probably, we will not have to pay anything if it is taken over by any governmental agency.

During the year we completed a building on the westerly portion of the property at Wilshire Boulevard and Cochran Avenue, which is now fully occupied and leased at rentals showing very good returns on the investment. We are negotiating at the present time with a major tenant for the easterly portion of this property, which includes the corner, and, if successful, this will make one of our best income producing properties.

During the year we were able to close out the Ben R. Meyer account, which has been a source of great trouble and worry to the company. In settlement of his note we received the sum of $100,000.00 in cash, occasioned by the sale of his home property, and an assignment of the furniture and fixtures in his home. We have been endeavoring to dispose of these furnishings and up to the present time have been successful in selling a large portion of them, hoping that it might be possible to realize approximately $50,000.00 from the sale. This would result

Exhibit CC—(Continued)

in a further loss of $25,000.00 in this very unsatisfactory account.

It was our misfortune during the year to lose our Director and Vice-President, Mr. Robert L. Watson, who had served the company long and faithfully, and your directors keenly feel the loss of his association. Upon the request of a majority of the stockholders of this company, Dr. J. R. Lacayo was elected as a director to serve the unexpired term of Mr. Watson.

During the year our net profit was reduced from $1,205,010.54 to $761,835.02, a decrease for the year of $443,175.52, of which $434,283.34 was occasioned by reduction in oil royalties. There is a $33,000.00 difference in our real estate account, which showed a profit for 1938, but, inasmuch as no appreciable sales were made this year, no profit to any extent was reflected. There was a reduction in rentals of $17,757.02, caused to a great extent by the amount of rental received from the Western Union property, their old lease having expired and a new one entered into at a reduced rental. In addition, there was also a loss on the rental of building at 833 South Spring Street, which is now in the process of litigation. Other income remained at approximately the same basis as in the past.

Notwithstanding this reduction in income we paid during the year dividends in the sum of $755,928.00, and in so doing only depleted our Earned Surplus in the amount of approximately $65,000.00. It will

Exhibit CC—(Continued)

be the policy of your directors to maintain the dividends at the present rates as long as it is possible to do so, using our Earned Surplus to supplement any deficiency in the income. We believe the policy of your company should be to give to the stockholders all possible returns as long as we are able to do so and keep the company in a position of liquidity in line with good business principles and, unless something drastic happens to the oil production as outlined above, we believe we will be able to do so.

In the unsettled condition of world and national affairs and, with the many problems that confront your company from day to day, we feel that the ability to pay a return of 7.7% on a basis of $1000.00 per share on our stock is one thing that helps maintain the stability and value of this stock at somewhere near its appraised value.

Respectfully submitted,

H. H. COTTON,
President.

RESPONDENT'S EXHIBIT DD

[Letterhead]

Dominguez Estate Company

To the Stockholders of
Dominguez Estate Company:

In taking up the affairs of your company for the past year there have been many changes in

Exhibit DD—(Continued)

both the personnel of the stockholders and officers and directors, and the conduct of the business of the corporation has been changed to some extent.

I will not endeavor to go into all of the details of these changes as the most of them are familiar to the stockholders, but will call your attention to the conduct of the business during the past year, and recommendations as to its future conduct.

I will first take a short analysis of the balance sheet as of December 31, 1936, a copy of which is attached herewith.

The first item of consideration under Assets shows Cash in Bank of $226,025.12. It has been the policy of this company to keep a very much larger amount of cash on hand, but your officers and directors feel that the cash can be better invested from a return standpoint, and that only a necessary amount of cash be kept on hand to care for the ordinary and extra-ordinary expenses that may arise to care for the conduct of the business.

The next item of Notes and Accounts Receivable in the sum of $542,337.24 is made up in large part of the notes of Ben R. Meyer and Milton Getz; these notes have been reduced since the first of the year approximately $60,000.00, and we feel will be further reduced this year.

The account show as Oil Royalties Due in the sum of $89,915.81 has been paid since the time of this balance sheet.

Exhibit DD—(Continued)

The next item Investments shows Bond Account of $217,352.01, which has been materially reduced from its figure of last year on account of the high price of bonds and the certainty that bond investments would decline in value, which decline has taken place since the time this statement was issued. The stock item in the sum of $1,045,065.24, which is cost price on the books, reflects the majority of stocks which have been purchased within the last two years and shows an appreciation of market value at the time of this statement of approximately $275,000.00 besides returning a reasonable rate of interest, and since January 18, 1937 have appreciated quite substantially in value.

The next item shown Assets Held in Trust rightfully belong in the real estate holding column, as a majority of the assets are unsold real estate now being held in trust.

The next item Due From Dominguez Water Company are bonds in the amount of $500,000.00 and Open Account amounting to $552.94, the Bond Issue being the money originally furnished by the Dominguez Estate Company for the construction of the Dominguez Water Company. Inasmuch as the Dominguez Estate Company owns the large majority of stock in the Dominguez Water Company and the larger holders outside of this company did not care to pay assessments to take care of the Bond Issue and interest and, in lieu thereof, have turned their stock in to the Dominguez Estate Company,

Exhibit DD—(Continued)

your officers and directors thought it for the best interest of the company to foreclose the bonds and take over the entire property and assets of the Dominguez Water Company, thereafter forming a new corporation and assigning to this new corporation all of the assets of the Dominguez Water Company and taking in exchange therefor the entire capital stock of the new company in payment for these assets taken under foreclosure proceedings by the Dominguez Estate Company. This will result in the Dominguez Estate Company having the complete ownership of the Dominguez Water Company without any outside stockholders. Necessary steps have been taken to accomplish this, and the transaction has been completed.

Our Unsold Real Estate values show as $15,936,-294.83 consist of all the properties of the Dominguez Estate Company, both ranch lands and city properties. This item has been increased in the past year by the addition of approximately $1,000,000.00 arising from the acquisition of the land and building of the Dominguez Wilshire Company, which company was dissolved and liquidated and the assets taken over by the Dominguez Estate Company.

In the Unsold Real Estate column you will notice two amounts, one "Land Value Increased by Appraisal"—$4,499,381.93, which was an arbitrary value that was added on to the 1913 cost of $3,-316,871.43, previously referred to, by an appraisal at the time the capital stock of the Dominguez Estate

Exhibit DD—(Continued)

Company was increased to take in the holdings of the Francis Land Company. This is an arbitrary figure and has no relation to true values. The same condition exists in the "Land Acquired in Exchange for Stock" item of $7,277,230.53; this was an arbitrary appraisement of the lands and buildings acquired from Mrs. Francis, and also has no relation to the true values. The fact of the matter is that a true reflection of Dominguez Estate Company stock would be gained by reducing the Unsold Real Estate item at least $6,000,000.00, which would bring the true values down to about $10,000,000.00. Your directors during the next year will endeavor to make these changes in these items so as to bring the items to more nearly their intrinsic value.

The next item Valuation of Oil Rights in the amount of $2,113,200.00 stands on the books at the depreciated value (on account of depletion taken) of $39,444.04. I will not endeavor to set up any value in excess of this figure at this time, although the oil rights on the Hill are worth many times the value carried on the books, but inasmuch as the development of the lower stratas is now in process and we have uncovered a rather spotty condition as shown by two existing faults in the deep zones, we are unable at this time to give the stockholders any definite information as to the extent of the so-called lower or miocene formation on the Reyes lease.

The Manuel lease which has been non-productive for some years, with the recent work that has just

Exhibit DD—(Continued)

taken place, has shown ability to produce in the upper zones which were not originally exploited, and the Shell Company recently brought in a new well of approximately 200 barrels at a depth of 4258 feet.

We have been informed by the Shell Company that they are going to recondition some of the older wells on this lease and we can anticipate some further production. The Richfield lease to the south of it have assured us they will immediately begin exploration work on their property for further production in this newly discovered zone.

The other items on the balance sheet are of small amounts and do not need any further explanation. The one exception, however, is the Water Rights in the amount of $80,800.00, which will be transferred to the new corporation that will handle the affairs of the Dominguez Water Company.

Supplementing the remarks in connection with the balance sheet of the Dominguez Estate Company, I would like to call to the attention of the stockholders the matters affecting the company that have taken place during the year.

During the year we purchased three pieces of real property, one being 472-480 East Colorado, Pasadena, a two-story brick building, in the sum of $85,000.00. This property is paying a net return of eight per cent and is, we believe, worth at least $115,000.00 at this time. We also purchased prop-

Exhibit DD—(Continued)

erty at the corner of 87th and Broadway for $65,000.00, and improved the same with a one-story brick and concrete building, which we have leased to the Thrifty Drug Stores and J. J. Newberry Company, which property, we believe, will return a figure of nine to ten per cent per year on the cost. We believe that this property is worth $25,000.00 or $30,000.00 more at this time than the actual cost of the property. We also purchased the northwest corner of Cochran and Wilshire, being 130x180 feet, in the sum of $162,500.00. This is the cheapest piece of property in the section known as the "Miracle Mile" and, in the opinion of the officers and directors, worth substantially more than we paid for the property. It is now rented to a gasoline station that pays about enough to take care of the taxes, but we hope to develop a major tenant for this property that will bring it into a very high income property.

During the early part of the year there was a controversy with the oil companies regarding the price of oil on the Hill, which had been materially reduced as against other fields, occasioned by overproduction of this field, which was forced by the Burnham Exploration Company and the Callender lease. We made arrangements not to sell at the posted price but to store the oil and finally obtained a settlement from the Shell and Union Oil Companies which returned to us a very substantial sum of money over the posted price. We have since

Exhibit DD—(Continued)

made arrangements to sell royalty oil on the Hill so it will net the company approximately $60,000.00 a year in excess of the prices posted for like oil in Dominguez Oil Field.

According to an agreement previously made an extension was given to the Shell-Union Oil Companies for the drilling and developing of deeper zones on Dominguez Hill for a further period of twenty years. This agreement, before executing, was revamped several times, and we believe that the new agreement is a good thing for the company in allowing for orderly development.

Of the royalties received of $1,143,124.03, $946,-234.90 or 83% is from crude oil royalties. Prior to this year only temporary and spasmodic verifications of the royalty receipts have been made. Beginning with August 1, 1936, a detailed distribution of every run ticket on production from the Dominguez Field is being made by the company's gauger, and price extensions and computations are being made in our office. The production covered in this way is approximately 99% of the total crude oil production. (About 17% comes from gasoline and gas, which to date is not being checked and verified in detail, but plans are also under way to check this production.)

In May 1936 the company arranged to reduce its stated capital to a sum not in excess of $500,000.00 to create a surplus that could be used for the pur-

Exhibit DD—(Continued)

chase of stock from stockholders of the Dominguez Estate Company who wished to dispose of their holdings. Prior to this time the company was not in a position, on account of its capital structure, to do this and, inasmuch as it was a closed corporation, there was no way for anybody to dispose of their stock except at a tremendous sacrifice. Under the present conditions stock can be retained for members of the family and not get into outside hands by sales at depreciated values.

During the year the By-Laws were amended and adopted as of a meeting held on May 19, 1936. The old By-Laws had become antiquated and did not follow the California code, so that it was judged best that this action be taken.

In May 1936 an arrangement was made by which the Reys-Dominguez Company purchased stock of the O'Melveny family at a price of $1,100,000.00, whereupon the O'Melvenys ceased to be stockholders or officers of the company. At the annual meeting held in May a new board and new officers were elected and have been conducting the affairs of your company ever since.

During the year the company sold several small pieces of property aggregating approixmately $50,-000.00, and have collected quite a considerable sum of money in past due accounts.

We have felt it was the correct thing to change the dividend policy of the company and pay out

Exhibit DD—(Continued)

in dividends the earnings of the company in as near to their entirety as we could during the year, retaining only for surplus accretions the depletion allowance of the oil royalties. In line with this policy the company paid during the year 1936 $61.50 per share in the form of dividends, and we believe that we will closely approximate this sum in the present year.

We have endeavored to vary the investment policy of the company to the extent of diversification of investment with reasonable interest rates and, as stated in the resume of the financial statement, have switched as much as possible from bonds to common stocks, on which the appreciation has been very considerable, and also investment in income producing real estate that show a good return on the investment and a very decided appreciation in value on the purchases.

Turning to the other side of the picture for a moment—we are confronted with a situation that is rather perplexing in its ramifications. The company carries in its assets many thousands of acres of unproductive ground which, unfortunately because of past sales and the exaggerated values placed thereon by tax assessors, is a severe drain on the earnings of the company in the shape of taxes and upkeep. We have been able to lease only a small percentage of the land at a figure that will even return taxes.

We are further confronted with a drainage prob-

Exhibit DD—(Continued)

lem in several portions of the ranch, one particularly in Dominguez Slough District, in which 600 or 700 acres of land of the Dominguez Estate Company are completely submerged by from one to six feet of water. Adequate drains cannot be installed to dispose of this water because of the minimum fall in feet to the ocean, and our application to the County Flood Control for relief was denied on the basis the land was not fit for human habitation. It seems that it should be the policy of this company to dispose of as rapidly as possible a large percentage of these unproductive lands both from the standpoint of Dominguez Estate Company as a corporation, but more from the point of the stockholders of this corporation because, as was exemplified in the Estate of Mrs. Francis, the values of the stock of this company are predicated on the value of the land as assessed by Government employees, and the value of the stock of Mrs. Francis was increased a tremendous extent by valuations that surely did not exist and many hundreds of thousands of dollars were paid in inheritance taxes.

These taxes, you realize, must be paid in cash, for the purpose of owning and holding this unproductive real estate, and this will become progressively worse in the estate of each stockholder of the Dominguez Estate Company, it being possible that all the liquid assets belonging to the stockholders will be used to pay inheritance taxes, and the remaining assets in the hands of the beneficiary

Exhibit DD—(Continued)

will consist of unsalable and unproductive lands with a heavy tax burden. This is a very serious situation and had not some of the lands of the Dominguez Estate Company been oil bearing and producing large sums of money, the Company would have been bankrupt by the necessity of having to carry these properties.

The year just closed has been the most profitable year the Dominguez Estate Company has ever experienced from operations alone, and it is possible that this year will be as good as last year, but we all must realize that the oil is gradually being depleted and we must look for diminishing returns from our oil properties and, although there is no question but what oil will be produced for many years on Dominguez properties, the peak of the production is certainly past and we can only look forward to diminishing returns. Therefore, we should endeavor to conserve and transfer our unproductive assets into productive assets that will enjoy a reasonable return or can be disposed of to advantage to the stockholders.

Respectfully submitted,

.....

President.

[Endorsed]: Filed Dec. 20, 1946.

Exhibit DD—(Continued)

Notice of Special Meeting of Shareholders of Carson Estate Company

Notice Is Hereby Given that a special meeting of the shareholders of the Carson Estate Company, a California Corporation, will be held on Thursday, the 14th day of May, 1936, at the hour of ten o'clock a.m. at the principal office for the transaction of the business of said corporation, located at 815 L. A. Stock Exchange Office Building, 639 South Spring Street, in the City of Los Angeles, County of Los Angeles, State of California, for the purpose of transacting the following business:

To consider the advisability of entering into a voting trust agreement with the Watson Land Company, a California Corporation, for the voting of the stock owned by this corporation in the Francis Land Company, a corporation, consisting of 1785 shares and in which the said Watson Land Company is also the owner of 1785 shares.

Dated: This 6th day of May, 1936.

W. W. POWELL,
President of the
Carson Estate Company.

[Endorsed]: Filed Dec. 20, 1946.

RESPONDENT'S EXHIBIT JJ

Carson Estate Company

Minutes May 6, 1936

On motion duly made by David V. Carson, seconded by H. H. Cotton and duly carried, the following resolution was adopted:

Whereas, this Corporation is the owner of 1785 shares of the Capital Stock of the Francis Land Company, a corporation; and

Whereas, the Watson Land Company, a corporation is the owner of 1785 Shares of the Capital Stock of the said Francis Land Company; and

Whereas, the directors of this corporation consider and believe that it is for the best interests of this corporation and its stockholders that a voting trust agreement be made and entered into by this corporation with the Watson Land Company, a corporation, for the voting and control of the stock owned by this corporation in the said Francis Land Company.

Now Therefore Be It Resolved, that this corporation enter into a voting trust agreement in writing with the Watson Land Company, a corporation, the purpose of which shall be voting and the control of the stock owned by this corporation and by the Watson Land Company, in the Francis Land Company, a corporation, which said voting trust agreement shall be for the period of ten years from and after the date of the execution of the same, and

Exhibit JJ—(Continued)

in which said agreement five trustees shall be appointed to vote said stock, two of which said trustees shall be appointed from, and shall always consist of, two member of the Board of Directors of this corporation, and also two of which shall be appointed from, and always consist of, two members of the Board of Directors of the Watson Land Company, and the fifth trustee shall be appointed and controlled by the Title Insurance and Trust Company of Los Angeles as a disinterested party; and

Be It Further Resolved, that the President and/or Vice President and Secretary of this corporation be and they are hereby authorized and empowered to make and execute said proposed voting trust agreement for and on behalf of this corporation and said officers are authorized and empowered to provide such other necessary provisions in said voting trust agreement as they shall deem best for the interests of this corporation and its stockholders; and

Be It Further Resolved, that said above mentioned officers of this corporation be and they are hereby authorized to prepare and cause to be filed with the Commissioner of Corporations of the State of California, an application for permission to issue participating or voting trust certificates as may be provided for in said voting trust agreement and to execute any and all necessary documents in connection herewith.

Motion carried.

Exhibit JJ—(Continued)

On motion duly made by David V. Carson, seconded by Lucy C. Rasmussen and duly carried, the following resolution was adopted:

Resolved, that the two Trustees to be appointed by the Carson Estate Company to act for it under the aforesaid voting trust agreement, shall be H. H. Cotton and Edward A. Carson.

Directors voting Yes were Lucy C. Rasmussen, George E. Carson, David V. Carson, W. W. Powell, H. H. Cotton and Edward A. Carson.

Director voting No was Thomas P. Cooper.

On motion duly made by Edward A. Carson, seconded by W. W. Powell and duly carried, the following resolution was adopted:

Resolved, that a special meeting of stockholders of this corporation be called to be held on the 14th day of May, 1936, at 10:00 a.m. and that the proper notices be mailed immediately.

There being no further business the meeting thereupon adjourned.

RESPONDENT'S EXHIBIT KK

Voting Trust Agreement Relative to Capital Stock of the Francisco Land Company, a California Corporation

This Agreement, made and entered into this 15th day of May, 1936, by and between the Carson Estate Company, a California corporation, and the Watson

Exhibit KK—(Continued)

Land Company, a California corporation, as Parties of the First Part, (hereinafter sometimes referred to as the "Stockholders"), and H. H. Cotton, Edward Carson, Wm. S. Martin, Alphose L. Watson, and Charles I. Baker, as Parties of the Second Part, (hereinafter called "Trustees"),

Witnesseth:

Whereas, the said above mentioned Carson Estate Company is the owner of 1,785 shares of the capital stock of the Francis Land Company, a corporation, and

Whereas, the said Watson Land Company, a corporation, is also the owner of 1,785 shares of the capital stock of the said Francis Land Company, and

Whereas, the said above mentioned corporations, as Parties of the First Part, believe it to be essential to their interests and further believe that their object as such Stockholders, can be best accomplished by acting together, and further believing that it is for the best interest of the said Francis Land Company that the said shares of stock herein transferred in the manner hereinafter provided shall be voted so as to secure a definite and fixed policy in the management and operation of the said Francis Land Company, including its earning capacity, the agreement of each constituting one of the considerations for the agreement of the others, and particularly by giving to the said Trustees as their agents

Exhibit KK—(Continued)

and attorneys-in-fact an irrevokable power to vote said shares of stock of the Francis Land Company upon the terms and conditions hereinafter set forth, and

Whereas, in order to accomplish said purposes and for their said protection the Stockholders have requested the said Trustees to take and hold for the period hereinafter stated the legal title of said shares of stock, the same to be held by them upon an active trust and to act under the terms of this agreement, and the trustees have agreed so to do.

Now Therefore, in consideration of the Mutual Agreements and Covenants, the said Stockholders do agree to and with each other and with the said Trustees, and the Trustees do agree with the Stockholders as follows:

1. All of the shares of stock of the said Francis Land Company now owned or controlled by the said Stockholders, being 1,785 shares owned by the said Carson Estate Company, and 1,785 shares owned by the said Watson Land Company, amounting in the aggregate to 3,570 shares, shall upon the signing of this agreement be endorsed and transferred to the said Trustees, to be held by said Trustees, for a period of ten (10) years from and after the date of the execution of this agreement, in trust, however, for the said Stockholders, their successors and assigns, for the uses and purposes of this trust and shall at all times be subject to the terms and conditions herein set forth.

Exhibit KK—(Continued)

The Parties of the First Part, as such Stockholders, do by these presents transfer and assign and convey to the said Trustees all of their and each of their right, title and interest in and to any of the shares of the capital stock of the said Francis Land Company now owned by them, and further agree that any and all certificates for additional shares of the stock of the said Francis Land Company that shall hereafter during the said period of ten (10) years be issued to either of the said Stockholders shall be in like manner endorsed and delivered to said Trustees to be held by them under the terms hereof:

2. Upon the transfer and delivery to the Trustees of the stock certificates for said shares the Trustees will then cause said certificates to be transferred upon the books of the Francis Land Company and new certificates therefor to be issued to the said Trustees, and thereupon the said Trustees will cause to be issued to each of the said Stockholders a trust certificate for the number of shares of stock represented by the respective certificate or certificates transferred to the Trustees hereunder, and that said trust certificates shall be in substantially the following form, to-wit:

"No..... .....Shares

Francis Land Company

Trust Certificate

This Certifies that ..... has deposited ..... shares of the capital stock

Exhibit KK—(Continued)

of the Francis Land Company, a corporation, of the par value of $100.00 each with the undersigned Trustees under an agreement between the Carson Estate Company, a corporation, and the Watson Land Company, a corporation, as Stockholders, of said Company, and

....., ..., ..., ..., and....., as Trustees, bearing date of the ..... day of ....., 1936, the terms of which are incorporated herein by reference, and the holder of this Certificate takes the same subject to all the terms and conditions of the aforesaid agreement.

This Certificate and the interest represented thereby is transferable only on the books of the said Trustees upon the presentation and surrender thereof, properly endorsed. The Trustees may require as a condition for the transfer hereof the payment of a sum sufficient to pay or reimburse the Trustees for any transfer tax or any other governmental charge in connection with said transfer.

In Witness Whereof, the undersigned Trustees have executed this Certificate this ..... day of.....19...

.....

.....

.....

.....

Trustees.

Exhibit KK—(Continued)

3. During all of said period of ten (10) years said Trustees, or a proxy appointed by them, shall possess and be entitled to exercise the sole and exclusive right to vote all of said shares of stock of the said Francis Land Company standing in the name of said Trustees at all regular and special meetings of the shareholders of said corporation and may vote for, do, or assent or consent to, any act or proceeding which the share holders of said Company might or could vote for, do, or assent or consent to, and shall have all the powers, rights and privileges of a shareholder of said Francis Land Company. Also, to receive dividends, to exercise any preemptive rights and to have every and all of the benefits and rights accruing by virtue of the said shares of stock in the said Francis Land Company.

Provided, however, said Trustees shall not have the power to vote without first having obtained the consent of each of the Stockholders in writing, in favor of or against, or to execute consents with respect to the following:

(a) The increase of the authorized capital stock of the said Francis Land Company, the reclassification of its stock, or the issuance of any other class or classes of stock;

(b) The merger or consolidation of the said Francis Land Company with any other corporation;

Exhibit KK—(Continued)

(c) The dissolution of the said Francis Land Company.

4. In voting said shares said Trustees shall at all times exercise their best judgment and discretion to the end that the affairs of said Francis Land Company shall be carefully and intelligently managed and so that suitable directors shall be selected; the Trustees, however, assume no responsibilities and shall not be liable for any act or default of their part or on the part of any of the agents or employees, excepting only for negligence or bad faith.

5. The trustees shall not be entitled to receive compensation for their services but they shall be entitled to be paid and indemnified against any and all expenses and liabilities incurred by them in connection with or growing out of the discharge of their duties hereunder in good faith, including counsel fees, if they believe it necessary to employ counsel in carrying out the terms of this agreement, and the trustees shall have a first lien on all shares of stock and any income received by them and the proceeds thereof for repayment to them of their expenses and disbursements so paid out.

6. During the period of ten (10) years that this trust shall be in effect the trust hereby created shall not be revoked and the powers hereby delegated to said trustees shall be irrevocable except by consent in writing executed by each of the stockholders herein. This trust, however, shall terminate upon the expiration of the said ten year period. Provided,

Exhibit KK—(Continued)

further, however, that this trust shall in no event terminate until all fees of and claims against said Trustees hereunder have been fully paid and satisfied, or indemnified by the Stockholders against any and all liabilities arising out of this agreement; and that upon the termination of said trust the Certificate representing all of the shares so held under this agreement and then remaining in the hands of said Trustees or their successors shall be assigned to the parties then entitled thereto upon surrender to the Trustees or said Trustees' certificates representing said shares.

7. The Trustees are authorized to receive all cash dividends from the Francis Land Company upon the shares enumerated in said certificate and also in the event that the said Francis Land Company shall declare and pay any dividends in capital stock the Trustees are authorized and empowered to receive the same, and upon receipt by the Trustees the respective holders of such certificates issued hereunder shall be entitled to receive trust certificates to the amount of stock received by said Trustees as such dividends upon the number of such shares represented by their respective trust certificates theretofore outstanding. Any cash dividends shall be promptly paid over to the said certificate holders.

8. It is understood and agreed that two (2) of the above mentioned Trustees have been designated and appointed as such by the said Carson Estate Company from their Board of Directors, and that

Exhibit KK—(Continued)

two (2) of said Trustees above mentioned have been appointed by the Watson Land Company from their Board of Directors, and that the fifth member of said Trustees has been designated and appointed by the Tile Insurance and Trust Company of Los Angeles, as a disinterested party. And it is further agreed that two of said Trustees shall always be appointed from and shall always consist of two members of the Board of Directors of the said Carson Estate Company, and likewise two of said Trustees shall be appointed and shall always consist of two members of the Board of Directors of the Watson Land Company, and further, that the fifth Trustee shall always be appointed and designated by the Title Insurance and Trust Company of Los Angeles, as a disinterested party. And it is further agreed in the event of a death, resignation or removal of said Trustees or either of them their successors shall be appointed and designated in the manner hereinabove specified, and any such successor shall be designated as such in writing and the appointment thereof delivered to the said Francis Land Company.

The said Trustees shall act by and through a majority of their number and any trustee authorized in writing by a majority of the Trustees may vote in person or by proxy the stock held in trust hereunder, or may execute any consents with respect thereto. The said Trustees are also empowered to adopt their own rules of procedure in respect to the administration of this trust. That at all of the meetings of the Trustees three (3) shall constitute a

Exhibit KK—(Continued)

quorum for the transaction of business. No Trustee appointed hereunder shall by reason of that fact be disqualified to be an officer or director of the said Francis Land Company or to hold any other position with the said Company.

9. That a copy of this trust indenture shall be filed at the office of the said Francis Land Company, and that a copy thereof shall be on file at the office of the said Trustees.

10. If any section, sub-section, sentence, clause or phrase of this agreement is for any reason held to be illegal or inoperative the same shall not affect the validity of the remaining portions of this agreement, unless the illegal or inoperative provision shall be of the essence of this agreement.

11. All of the agreements, stipulations and conditions herein contained shall apply to and bind all of the parties hereto and their successors and assigns.

12. The signing of this agreement by the Trustees shall constitute their acceptance thereof.

In Witness Whereof, the said Carson Estate Company and the said Watson Land Company have caused their corporate names to be subscribed and their seals affixed by their respective presidents and secretaries thereunto duly authorized by resolution

Exhibit KK—(Continued)

of their respective Boards of Directors this 15th day of May, 1936.

(Corporate Seal)

CARSON ESTATE COMPANY,

By /s/ W. W. POWELL,
President.

By /s/ H. H. COTTON,
Secretary.

WATSON LAND COMPANY,

By /s/ R. L. WATSON,
Vice President.

By /s/ H. H. JARRETT,
Secretary.
Stockholders.

/s/ EDWARD CARSON,

/s/ ALPHONSE L. WATSON,

/s/ H. H. COTTON,

/s/ WM. S. MARTIN,

/s/ CHARLES I. BAKER,
Trustees.

[Endorsed]: Filed Dec. 20, 1946.

RESPONDENT'S EXHIBIT LL

Reyes-Dominguez Company Minutes December 12, 1935

The president reported that the inventory of the Executor of the Estate of Maria de Los Reyer D. de Francis includes five (5) shares of Reyes-Dominguez Company stock carried at $5427.40, and five (5) shares of Francis Land Company stock carried at $4421.45, and he though it advisable that the Reyes-Dominguez Company purchase these stocks from the Executor.

Upon motion duly made, seconded and unanimously carried, the following resolution was adopted, to-wit:

Resolved that the Reyes-Dominguez Company will make an offer to the Executor of the Estate of Maria de Los Reyes D. de Francis, deceased, to purchase from the said Executor the following discribed assets of said Estate, to-wit:

First: Five (5) shares of the Capital Stock of the Reyes-Dominguez Company for a total sum of $5427.40.

Second: Five shares of the Capital Stock of the Francis Land Company for a total sum of $4421.45.

Resolved further than upon a confirmation of the sale by the Superior Court of the State of California, in and for the County of Los Angeles, of each and all of said securities to Reyes-Dominguez Company, the officers of this corporation be and hereby are

Exhibit LL—(Continued)

authorized to sign a check in payment of the purchase price of said securities and to accept delivery of the said securities so purchased.

Minutes April 9, 1936

The president stated that it might be necessary for the Reyes-Dominguez Company to purchase 1100 shares of Dominguez Estate Company Stock from the O'Melveny family, and asked that a resolution be adopted authorizing the officers to make the purchase.

After discussion, upon motion duly made, seconded and unanimously carried, the following resolution was adopted, to-wit:

Resolved that the officers of this Corporation be and they are hereby authorized to purchase 1100 Shares of Dominguez Estate Company stock from the O'Melveny family at a price of $1000.00 per share, same to be paid for in cash or bonds at the prevailing market value at the time of purchase.

Resolved further that prior to the time of purchase of said stock the act of the officers in consummating this purchase be ratified and confirmed in a document signed by the stockholders and filed with the Company to be recorded in the minutes.

Minutes May 13, 1936

The president also stated that it would be necessary for the company to agree to purchase 1100 shares of the Capital Stock of the Dominguez Estate

Exhibit LL—(Continued)

Company from the O'Melvenys for the sum of $1,100,000.00, payable in cash and/or bonds, at the discretion of the officers of the Reyes-Dominguez Company, the value of the bonds to be appraised both by the O'Melvenys and Reyes-Dominguez Company.

The president also stated that in order to carry out the terms of the agreement that this corporation purchase from the Title Insurance and Trust Company, as Executor of the Estate of Maria de Los Reyes D. de Francis, deceased, 365 shares of the capital stock of the Francis Land Company at a price of $1,000.00 per share, payable in cash upon delivery and transfer of said stock.

Be It Resolved, that this corporation purchase 1100 Shares of the Capital Stock of the Dominguez Estate Company, a California corporation, from the O'Melvenys, who are parties to the first part to said agreement, for the sum of $1,100,000.00, payable either in cash or in bonds to be approved by this corporation through its president, H. H. Cotton, and the said O'Melvenys. Payment to be made upon delivery and transfer of said 1100 shares of stock to this corporation.

Be It Further Resolved that in order to carry out the terms and provisions of said agreement of May 8th, 1936, above mentioned, that this corporation purchase from Title Insurance and Trust Company of Los Angeles, as Executor of the will of Maria de Los Reyes D. de Francis, deceased, 365

Exhibit LL—(Continued)

shares of the Francis Land Company, a California corporation, at the price of $1,000.00 per share, payable in cash upon the delivery and transfer of stock to this corporation.

Minutes September 11, 1936

11. As and when that shall appear to the directors to be the best interests of the shareholders in effecting such liquidation, bonds whether or not in default and likewise corporate shares (other than those of Francis Land Company and Dominguez Estate Company) may be sold at not less than the then current market value thereof instead of being distributed in kind; and in such case the proceeds thereof shall be distributed in lieu of and at the time when the property so sold would otherwise have been distributed, subject always to the requirement that such liquidation and distribution shall at all events be completed by September 11, 1938.

RESPONDENT'S EXHIBIT MM-1

Dominguez Estate Company Minutes April 10, 1935

The matter of a loan to Victoria Limacher of $100.00 per month for not exceeding two years was brought up for discussion. It appearing that her present loan, both principal and interest, amounted to approximately $11,000 and the security therefor was only five shares of the capital stock of Dominguez Estate Company, it was moved, seconded and

Exhibit MM-1—(Continued)

carried that her application for said loan should be granted on condition that she pledge not less than five additional shares of Dominguez Estate Company stock as security.

Minutes June 19, 1935

A discussion was had relative to certain shares of the Carson Estate Company owned by the former firm of Hunsaker & Britt and it appearing that the Carson Estate Company was not in a position to purchase said stock and it was believed ill advised to permit any of its stock to be held by persons outside of the present stockholders of the family corporations and that the stock was worth from $400.00 to $600.00 per share, it was thereupon moved, seconded and unanimously carried that this corporation would purchase said stock and pay therefor the sum of $2000.00 and that the officers of this corporation were authorized to draw a check in payment therefor upon receipt of said stock duly endorsed.

Minutes May 7, 1936

Whereas this corporation has heretofore duly initiated proceedings for the reduction of its stated capital from $1,049,900.00 to $524,950.00;

Now Therefore, Be It Resolved that upon the completion of said proceedings and the creation of a reduction surplus of $524,950.00, this corporation shall purchase not exceeding four hundred ninety-nine (499) shares of its outstanding capital stock,

Exhibit MM-1—(Continued)

at and for the price of one thousand dollars ($1000.00) per share, and from .....; and

Resolved Further that the officers of this corporation be and they hereby are authorized and directed to procure the authorization of such purchase of shares by the vote or written consent of the holders of at least two-thirds of the outstanding shares of this corporation, other than said 499 shares to be purchased; and

Resolved Further that upon the purchase of said 499 shares, the reduction surplus of this corporation shall be reduced by the amount of the purchase price of such shares, and such shares shall be restored to the status of authorized but unissued shares.

The said resolution was fully discussed by the directors present and after due consideration its adoption was moved, seconded and duly carried, upon roll call the following directors voting in favor thereof: H. H. Cotton, H. H. Jarrett, E. A. Carson and R. L. Watson, constituting four of the six directors, John O'Melveny not being present and H. W. O'Melveny not voting.

Minutes May 13, 1936

The chairman stated that at the special meeting of the Board of Directors held May 7, 1936, a resolution was adopted calling for the reduction of the stated capital of the company, the creation of a reduction surplus, and the purchase of not to exceed 499 shares of its outstanding capital stock; that he

Exhibit MM-1—(Continued)

was of the opinion that this resolution was prematurely adopted, and suggested that the resolution as adopted be rescinded and annulled.

The matter was fully discussed and, thereupon, the following resolution was offered, its adoption duly seconded and upon being put to vote was unanimously carried, to-wit:

Whereas, at a meeting of the board of directors of this corporation held May 7, 1936, resolutions were adopted authorizing the purchase of 499 of the outstanding shares of this corporation from unnamed persons; and

Whereas, it now appears that said resolutions were prematurely adopted;

Now, Therefore, Be It Resolved, that said resolutions authorizing the purchase of said shares of this corporation, as adopted at said meeting of the board of directors of this corporation held May 7, 1936, be and the same hereby are rescinded and annulled.

Whereas, the directors of this corporation are considering the advisability of taking appropriate proceedings to reduce the stated capital of this corporation, and to amend its Articles of Incorporation to reduce the par value of its outstanding shares from $100 to $50 each, and to authorize the purchase of certain shares of this corporation from the reduction surplus so created;

Now, Therefore, Be It Resolved, that a special meeting of the stockholders of this corporation be

Exhibit MM-1—(Continued)

and the same hereby is called to be held on May 25, 1936, at 3:30 o'clock p. m., at the office of this corporation in Room 824 Title Insurance Building, 433 South Spring Street, Los Angeles, California, for the purpose of considering and acting upon the following propositions:

(A) The reduction of the stated capital of this corporation from $1,049,900 to $524,950;

(B) The amendment of the Articles of Incorporation of this corporation to reduce the par value of its shares from $100 each to $50 each; and

(C) The purchase of not to exceed 499 shares of this corporation, at prices not exceeding $1000 per share, out of the reduction surplus so to be created;

and

Resolved Further, that the secretary of this corporation be and he is hereby authorized and directed to mail to each of the stockholders of record of this corporation, on or before May 15, 1936, a notice of said special meeting of stockholders in substantially the following form:

Exhibit MM-1—(Continued)

"Notice of Special Meeting of Stockholders of Dominguez Estate Company

To the Stockholders of
Dominguez Estate Company:

You are hereby notified that the Board of Directors has called a special meeting of stockholders to be held on May 25, 1936, at 3:30 o'clock p. m., in Room 824, Title Insurance Building, 433 South Spring Street, Los Angeles, California, for the purpose of considering and acting upon the following propositions:

(A) The reduction of the stated capital of this corporation from $1,049,900 to $524,950;

(B) The amendment of the articles of incorporation of this corporation to reduce the par value of its shares from $100 each to $50 each; and

(C) The purchase of not to exceed 499 shares of this corporation, at prices not exceeding $1000 per share, out of the reduction surplus so to be created;

and for the purpose of transacting such other business as may come before said meeting.

Dated May 15, 1936.

FRED H. DREW,
Secretary of Dominguez
Estate Company."

Exhibit MM-1—(Continued)

Minutes May 25, 1936

The President then stated that he deemed it to be to the best interests of the corporation to institute proceedings to reduce its stated capital from $1,049,900.00 to $524,950.00. He further suggested that the outstanding par value shares of this corporation be adjusted to the stated capital by changing the par value of said shares from $100.00 each to $50.00 each. By this procedure there would be created a reduction surplus out of which the company could purchase its own stock to the amount of such reduction surplus from any stockholders desiring to sell their stock, providing the holders of at least two-thirds of the remaining stock consent to such purchase.

Civil Code, and in general to do any and all things necessary to effect said amendment in accordance with said Section 362b.

The President stated that some of the stockholders had indicated a desire to sell a portion of their stock in the Dominguez Estate Company. He stated that as the company was initiating proceedings to place the company in a position to purchase stock from the stockholders, a motion was in order authorizing the purchase of stock out of reduction surplus.

After a brief discussion the following resolution was offered, its adoption duly moved, seconded and unanimously carried, to-wit:

Exhibit MM-1—(Continued)

Whereas, this corporation has heretofore duly initiated proceedings for the reduction of its stated capital from $1,049,900.00 to $524,950.00, which will thereby create a reduction surplus of $524,950.00:

Now, therefore, be it resolved that upon the completion of said proceedings and the creation of a reduction surplus of $524,950.00, this corporation may purchase out of such reduction surplus, not exceeding four hundred ninety-nine (499) shares of its outstanding stock, at prices not exceeding one thousand dollars ($1,000.00) per share, from stockholders of this corporation; and

Resolved further that this Board of Directors hereby determine that by such distribution or withdrawal of reduction surplus in connection with the purchase of shares heretofore authorized, this corporation will not be rendered unable to satisfy its debts and liabilities as they fall due and that the assets of this corporation after such distribution or withdrawal, taken at their fair value, will at least equal one and one-quarter times its debts and liabilities; and

Resolved further that the officers of this corporation be and they hereby are authorized and directed to procure the authorization of such purchase of shares by the vote or written consent of the holders of at least two-thirds of the outstanding shares of this corporation, other than said 499 shares to be purchased; and

Exhibit MM-1—(Continued)

Resolved further that upon the purchase of said 499 shares, the reduction surplus of this corporation shall be reduced by the amount of the purchase price of such shares, and such shares shall be restored to the status of authorized but unissued shares.

The Chairman then read a letter from Del Amo Estate Company addressed to Dominguez Estate Company in which they offer to sell all or any part of their 980 shares of stock in the company for a price of $800.00 per share.

After a brief discussion it was duly moved, seconded and unanimously carried, that the Chairman be authorized to carry on further negotiations with Del Amo Estate Company with reference to the purchase of this stock.

Minutes July 29, 1936

A letter from the Del Amo Estate Company dated July 17, 1936, was then read, the contents of which were as follows, to-wit:

"Dominguez Estate Company
621 South Spring Street
Los Angeles, California

Gentlemen:

Referring to our letter to you dated May 23, 1936, offering to sell all or any part of the nine hundred eighty shares of the capital stock of the Dominguez

Exhibit MM-1—(Continued)

Estate Company at and for the price of $800.00 per share, kindly be advised that we hereby withdraw the above offer effective this date.

Very truly yours,

DEL AMO ESTATE COMPANY.

RESPONDENT'S EXHIBIT MM-2

Dominguez Estate Company

Minutes of Meeting of Board of Directors
May 25, 1936

Immediately after the adjournment of the adjourned annual stockholders meeting the Board of Directors elected thereat held its regular organization meeting at the hour of 3:00 o'clock p. m.

There were present the following directors:

H. H. Cotton, E. A. Carson, David V. Carson, R. L. Watson, H. H. Jarrett, Wm. S. Martin, Eugenio Cabrero.

Mr. Cotton was appointed temporary chairman and presided throughout the meeting.

The Chairman announced that the first order of business was the election of officers for the ensuing year.

The nominations of the following named officers were made and duly seconded and, upon being put

Exhibit MM-2—(Continued)

to vote, the following were unanimously elected to serve for the ensuing year:

H. H. Cotton, President; R. L. Watson, Vice-President; Wm. S. Martin, Secretary-Treasurer; Fred Drew, Assistant Secretary-Treasurer; H. H. Jarrett, Manager, Real Estate Department.

The Chairman stated that, owing to the election of new officers for the ensuing year, it would be necessary to change the signature cards for the checking accounts in the banks.

Upon motion duly made, seconded and unanimously carried, the following resolutions were adopted, to-wit:

Union Bank

Resolved that H. H. Cotton, President, or R. L. Watson, Vice-President, and Wm. S. Martin, Secretary, or Fred Drew, Assistant Secretary, be and they are hereby authorized to sign checks and drafts for and on behalf of this corporation, and to endorse and cash or deposit checks, certificates of deposit and drafts payable to this corporation.

This corporation shall be liable to and shall reimburse immediately any bank on which any check or draft signed as aforesaid may be drawn for the amount of any overdraft.

Exhibit MM-2—(Continued)

Torrance National Bank

Resolved that H. H. Cotton, President, or R. L. Watson, Vice-President, and Wm. S. Martin, Secretary-Treasurer, or Fred Drew, Assistant Secretary, of this corporation are hereby authorized to sign all checks and drafts of this corporation drawn on Torrance National Bank, Torrance, California, and that each of them is hereby authorized to endorse for deposit checks and drafts payable to this corporation.

Seaboard National Bank

Resolved that two of the following: H. H. Cotton, President, or R. L. Watson, Vice-President, and Wm. S. Martin, Secretary-Treasurer, or Fred Drew, Assistant Secretary, of this corporation be and they are hereby authorized to sign checks and drafts for and on behalf of this corporation and that each of them be and he is hereby authorized to endorse checks and drafts payable to this corporation.

Upon motion duly made, seconded and unanimously carried, the following resolution was adopted, to-wit:

Resolved that H. H. Cotton, President, and/or R. L. Watson, Vice-President, and/or Wm. S. Martin, Secretary-Treasurer, and/or Fred Drew, Assistant Secretary-Treasurer, of this corporation be and they are authorized, any

Exhibit MM-2—(Continued)

two acting jointly, to enter into a rental agreement with Security-First National Bank of Los Angeles for a safe deposit box in accordance with said bank's conditions, regulations and rules and to have access to said safe deposit box, and to do and perform, with reference to both withdrawing or changing, from time to time, the contents of said safe deposit box, or in relation to any other thing pertaining thereto, including the surrender of said safe deposit box and the keys thereof, all things which said bank or its agents may deem necessary in and about the premises; this resolution and the powers conferred hereby to remain in full force and effect until said bank is given written notice to the contrary at the office or branch at which said safe deposit box is rented.

The President then stated that he deemed it to be to the best interests of the corporation to institute proceedings to reduce its stated capital from $1,049,900.00 to $524,950.00. He further suggested that the outstanding par value shares of this corporation be adjusted to the stated capital by changing the par value of said shares from $100.00 each to $50.00 each. By this procedure there would be created a reduction surplus out of which the company could purchase its own stock to the amount of such reduction surplus from any stockholders desiring to sell their stock, providing the holders of at least two-thirds of the remaining stock consent to such purchase.

Exhibit MM-2—(Continued)

After a brief discussion the following resolution was offered, its adoption moved, seconded and unanimously carried, to-wit:

Whereas, this corporation now has issued and outstanding 10,499 shares, all of one class, of the par value of $100.00 each; and

Whereas, the stated capital of this corporation is $1,049,900.00; and

Whereas, it is deemed to be to the best interests of this corporation that its stated capital be reduced from $1,049,900.00 to $524,950.00, and that the outstanding par value shares of this corporation be adjusted to the stated capital as so reduced by changing the par value of said shares from $100.00 each to $50.00 each pursuant to an amendment of the articles of incorporation of this corporation; and

Whereas, this corporation has no outstanding shares entitled to preference upon liquidation, and the stated capital of this corporation as so reduced will be equal to the aggregate par value of all par value shares of this corporation to remain outstanding after such reduction:

Now, therefore, be it resolved that the stated capital of this corporation be reduced from $1,049,900.00 to $524,950.00, the amount of such reduction being $524,950.00; and

Resolved further that this reduction of stated capital of this corporation shall become effective upon the filing in the office of the California Secre-

Exhibit MM-2—(Continued)

tary of State of the certificate of amendment of the articles of incorporation of this corporation changing the par value of its shares from $100.00 each to $50.00 each; and

Resolved further that the officers of this corporation be and they hereby are authorized and directed to procure the approval of these resolutions by the vote or written consent of the holders of a majority of the outstanding shares of this corporation, regardless of limitations or restrictions on the voting rights thereof, and to take such further action as may be necessary and proper to effect the reduction of stated capital of this corporation from $1,049,900.00 to $524,950.00 in accordance with the laws of the State of California.

The President stated that in order to adjust the outstanding shares to the stated capital as reduced, it would be necessary to reduce the par value of the shares of stock by an amendment of the articles of incorporation.

After a brief discussion the following resolution was offered, its adoption moved, seconded and unanimously carried, to-wit:

Whereas, it is deemed by the Board of Directors of this corporation to be to its best interests and to the best interests of its shareholders that its articles of incorporation be amended to reduce the par value of its shares from $100.00 per share to $50.00 per share:

Now, therefore, be it resolved that Article Sixth

Exhibit MM-2—(Continued)

of the articles of incorporation of this corporation be amended to read as follows:

> "Sixth: This corporation is authorized to issue only one class of shares of stock; the total number of said shares shall be ten thousand four hundred ninety-nine (10,499); the aggregate par value of all of said shares shall be five hundred twenty-four thousand nine hundred fifty dollars ($524,950.00), and the par value of each of said shares shall be fifty dollars ($50.00)."

and

Resolved further that the Board of Directors of this corporation hereby adopts and approves said amendment of its articles of incorporation; and

Resolved further that the President or a Vice-President and the Secretary or an Assistant Secretary of this corporation be and they hereby are authorized and directed to procure the adoption and approval of the foregoing amendment by the vote or written consent of shareholders of this corporation holding at least a majority of the voting power, and thereafter to sign and verify by their oaths and to file a certificate in the form and manner required by Section 362b of the California Civil Code, and in general to do any and all things necessary to effect said amendment in accordance with said Section 362b.

The President stated that some of the stockholders had indicated a desire to sell a portion of their

Exhibit MM-2—(Continued)

stock in the Dominguez Estate Company. He stated that as the company was initiating proceedings to place the company in a position to purchase stock from the stockholders, a motion was in order authorizing the purchase of stock out of reduction surplus.

After a brief discussion the following resolution was offered, its adoption duly moved, seconded and unanimously carried, to-wit:

Whereas, this corporation has heretofore duly initiated proceedings for the reduction of its stated capital from $1,049,900.00 to $524,950.00, which will thereby create a reduction surplus of $524,950.00:

Now, therefore, be it resolved that upon the completion of said proceedings and the creation of a reduction surplus of $524,950.00, this corporation may purchase out of such reduction surplus, not exceeding four hundred ninety-nine (499) shares of its outstanding stock, at prices not exceeding one thousand dollars ($1,000.00) per share, from stockholders of this corporation; and

Resolved further that this Board of Directors hereby determine that by such distribution or withdrawal of reduction surplus in connection with the purchase of shares heretofore authorized, this corporation will not be rendered unable to satisfy its debts and liabilities as they fall due and that the assets of this corporation after such distribution or withdrawal, taken at their fair value, will at least equal one and one-quarter times its debts and liabilities; and

Exhibit MM-2—(Continued)

Resolved further that the officers of this corporation be and they hereby are authorized and directed to procure the authorization of such purchase of shares by the vote or written consent of the holders of at least two-thirds of the outstanding shares of this corporation, other than said 499 shares to be purchased; and

Resolved further that upon the purchase of said 499 shares, the reduction surplus of this corporation shall be reduced by the amount of the purchase price of such shares, and such shares shall be restored to the status of authorized but unissued shares.

The President then read a preamble and resolution passed and adopted by the stockholders at their adjourned annual meeting.

Thereupon the following resolution was offered, its adoption duly seconded, and the same was adopted by the unanimous vote of all directors present:

Whereas, at the annual meeting of the stockholders of Dominguez Estate Company held on May 25, 1936, the following preamble and resolution was duly adopted:

Whereas by a certain indenture or contract of agreement and settlement dated the 8th day of May, 1936, filed in the Superior Court of the State of California in and for the County of Los Angeles, upon the 13th day of May, 1936, in the Matter of the Estate of Maria de Los Reyes D. de Francis,

Exhibit MM-2—(Continued)

deceased, designated as Probate No. 136707 in the records of said Court, to which reference is hereby made, it was provided that certain corporations should execute general releases to H. W. O'Melveny, Stuart O'Melveny, Donald O'Melveny and John O'Melveny; and

Whereas the said agreement of settlement or compromise, above referred to, provides that it shall be approved by the judge of said Superior Court of Los Angeles County having jurisdiction thereof, and furthermore provides for certain obligations to be performed by the said O'Melvenys, mentioned as parties of the first part in said agreement, which obligations are fully set forth in paragraphs 1 and 2 of said agreement, and that in such event Dominguez Estate Company shall release said O'Melvenys from any and all claims, actions or causes of action it may or might have against said O'Melvenys;

Now, therefore, be it resolved that the directors of the Dominguez Estate Company be and they hereby are requested, authorized and directed to execute in the name of this corporation and under its seal, the following agreement of release, which is in words and figures as follows, to-wit:

"Dominguez Estate Company, for valuable consideration to it moving, receipt whereof is hereby acknowledged, does hereby release and forever discharge H. W. O'Melveny, Stuart O'Melveny, Donald O'Melveny and John O'Melveny, and each of them, from and against all demands, claims, actions,

Exhibit MM-2—(Continued)

causes of action and/or suits at law or in equity that it, the said Dominguez Estate Company, may now have or assert, arising out of any acts or omissions which have heretofore been done or suffered by the O'Melvenys, or any of them, of any and every nature whatsoever, including (without limiting the generality of the foregoing) any and all acts or omissions in connection therewith, directly or indirectly, as officers, directors, attorneys, agents or employers of the Dominguez Estate Company, or in any capacity or capacities whatever, whether like or unlike the foregoing, from the beginning of the world to date.

In witness whereof, this instrument has been duly executed by the President and Secretary of the corporation, and the corporate seal attached hereto, pursuant to authority to them granted by a resolution passed and adopted at a special meeting of the board of directors of this corporation duly and regularly called and held upon the 25th day of May, 1936, at 3:00 o'clock p. m., at which meeting a full board of directors were present, authorizing the execution of this instrument.

DOMINGUEZ ESTATE
COMPANY,

By .....
President,

By .....''
Secretary.

Exhibit MM-2—(Continued)

Resolved further that on the execution of the said release by the proper officers the same be deposited in escrow with the Title Insurance and Trust Company, as escrow holder, to be by it held and not delivered until the performance of the following conditions, to-wit:

Upon condition that said agreement has been approved and confirmed by the judge of the Superior Court of Los Angeles County; and

Upon condition, furthermore, that the O'Melvenys have fully performed those certain obligations to be performed by them, which obligations are fully set forth in paragraphs 1 and 2 of said agreement.

Be it further resolved that the directors of this corporation be and they hereby are authorized, empowered and instructed to pass a resolution authorizing its officers, to-wit, its President and Secretary, to execute, seal, acknowledge and deliver said release, subject to the conditions herein last above set forth, and this shall be their warrant therefore."

Now, therefore, be it resolved that in accordance with the foregoing resolution, the Dominguez Estate Company hereby releases the persons named in said stockholders resolutions from the claims and causes of action, therein set forth and in evidence thereof the President and Secretary of this corporation are authorized and directed to execute a release in the language and form set forth in said stockholders'

Exhibit MM-2—(Continued)

resolution, in the name of this corporation and under its corporate seal, and to deliver the same in escrow, subject to the conditions named in said resolution of the stockholders, as and for the act and deed of this corporation.

Resolved further that the President of this corporation be given power to sign said escrow agreement and to do all other things necessary to carry into effect the foregoing resolutions.

The Chairman then reported on a tax conference had with the Internal Revenue Department regarding a penalty on the 1933 income tax return. He stated the penalty was assessed for violation of Section 104 of the Revenue Act of 1932. At the conclusion of the meeting the Agent in Charge of the hearing stated that he would review the case and if the assessment was not dropped we would be notified.

The Chairman then read a letter from Del Amo Estate Company addressed to Dominguez Estate Company in which they offer to sell all or any part of their 980 shares of stock in the company for a price of $800.00 per share.

After a brief discussion it was duly moved, seconded and unanimously carried, that the Chairman be authorized to carry on further negotiations with Del Amo Estate Company with reference to the purchase of this stock.

The Chairman then stated that the offices now

Exhibit MM-2—(Continued)

occupied by the company were inadequate for the transaction of the business, and that offices could be obtained in the building at 621 South Spring Street, whereby the offices of Dominguez Estate Company, Carson Estate Company and the Watson Land Company could be consolidated and effect a saving in rental.

It was duly moved, seconded and unanimously carried, that the principal office of the company in Los Angeles County be removed to 621 South Spring Street, Los Angeles, California, effective as of June 20, 1936.

There being no further business to come before the meeting, the meeting adjourned at 3:30 o'clock p. m.

H. H. COTTON,
Chairman.

Attest: FRED DREW,
Secretary.

United States Circuit Court of Appeals
for the Ninth Circuit

Tax Court Docket No. 2257

VICTORIA L. COTTON,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

PETITIONER'S STATEMENT OF POINTS TO BE RELIED UPON AND DESIGNATION OF PARTS OF THE RECORD TO BE PRINTED.

Comes now Victoria L. Cotton, the petitioner for review in the above entitled cause, by and through her counsel, and states that the points upon which she intends to rely in this case are as follows:

The Tax Court of the United States erred:

(A) In determining and deciding without any evidence or substantial evidence in support thereof a value of $900.00 per share for the stock of Dominguez Estate Company.

(B) In determining and deciding without any evidence or substantial evidence in support thereof a value of $990.00 per share for the stock of Francis Land Company.

(C) In determining and deciding without any evidence or substantial evidence in support thereof

a value of $500.00 per share for the stock of Carson Estate Company.

(D) In denying petitioner's Motion for Rehearing.

(E) In denying petitioner's Motion for Reconsideration.

(F) In denying petitioner's Motion for Review of Report by the Full Court.

(G) In finding and deciding that Dominguez Estate Company was a holding company.

(H) In finding and deciding that Dominguez Estate Company was not an operating company.

(I) In failing to find and decide that Dominguez Estate Company was an operating company.

(J) In finding and deciding without any evidence or substantial evidence in support thereof that the fair market value of the oil properties of Dominguez Estate Company was $4,500,000.00.

(K) In failing to take into consideration the fact that the oil properties of Dominguez Estate Company sought to be valued were of a speculative nature necessitating the consideration of speculative matters, and in failing to take into consideration all elements and factors, speculative and otherwise, that affect such value.

(L) When determining the fair market value of the oil properties of Dominguez Estate Company, in failing to take into consideration:

(1) Comparative sales of oil royalties.

(2) Established and approved methods of determining such values.

(3) The known and future income tax burdens on the estimated probable future income from said oil properties.

(4) Every element, physical or otherwise, which will reflect on the income emanating from the operation or production of the oil properties.

(5) The opinion of qualified and experienced witnesses.

(6) The stipulated facts and documents and evidence contained in the record.

(M) In determining the fair market value of the oil properties of Dominguez Estate Company to erroneously assume, contrary to the facts set forth in the stipulation and record, that the "computation of the estimated probable future income from the oil properties" was a fixed, certain amount to be received.

(N) When determining the fair market value of the oil properties of Dominguez Estate Company, in giving credence to the opinions expressed by witnesses Grimes and Phillips, who are not oil engineers and who were not familiar with the oil properties and whose value was based in the one case, upon an erroneous formula derived merely from stock market quotations of a date more than five months prior to the date of the gift, and in the

other, upon a misapplication of a formula prepared by someone else and without having been informed as to the estimated probable future production in barrels.

(O) When determining the fair market value of the oil properties of Dominguez Estate Company, in accepting the values given by witness Grimes and Phillips, whose testimony was substantially repudiated by four other witnesses called by the respondent.

(P) When determining the fair market value of the oil properties of Dominguez Estate Company, in assuming that witness Eitner gave an opinion as to the fair market value of said oil properties.

(Q) When determining the fair market value of the stock of the Dominguez Estate Company, in failing to take into consideration:

(1) The company's net worth.

(2) The company's earning power.

(3) The company's dividend-paying capacity.

(4) The effect upon the value of said stock of income tax burdens.

(5) The relative values, in relation to assets and earnings of listed stocks as required by section 811(k) of the Internal Revenue Code.

(6) The then depressed economic conditions.

(7) All other relevant factors having a bearing

upon the said stock as required by respondent's regulations and established court decisions.

(R) In assuming that the fair market value of the stock of Dominguez Estate Company was a sum equivalent to the value of its net assets divided by the number of its outstanding shares, and in giving credance to the testimony of experts who admitted that their values were obtained by dividing the assets by the number of shares outstanding.

(S) In failing to give proper discount for the fact that petitioner's 200 shares of the stock of Carson Estate Company, the subject of the gift, were a minority interest unable to force a liquidation.

(T) In considering transfers of the stocks in question between members of the families where the stipulated facts showed that such transfers were too far removed from June 5, 1941, to have any relevancy or materiality in a determination of value as of that date, and were not bona fide, arms-length transactions having any relevancy to the question of fair market value.

Petitioner hereby designates the entire record, as certified to the Clerk of the above entitled Court, as necessary to be printed for the consideration of the points set forth above. Petitioner also designates this Statement of Points and Designation as necessary to be printed.

Dated December 20th, 1946.

/s/ A. CALDER MACKAY,

/s/ ARTHUR McGREGOR,

/s/ HOWARD W. REYNOLDS,

/s/ ADAM Y. BENNION,
Counsel for Petitioner.

Personal service of a copy of the foregoing Statement of Points and Designation is hereby acknowledged this 24th day of December, 1946.

/s/ J. P. WENCHEL, SLY
Chief Counsel, Bureau of
Internal Revenue,
Counsel for Respondent.

[Endorsed]: Filed Jan. 2, 1947.